



Security Council

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Note by the Secretary-General

The Secretary-General has the honour to transmit herewith to the Security Council the report of the Board of Auditors on the audit of the United Nations escrow account established under the provisions of Security Council resolution 1958 (2010) for the period from 1 January to 31 December 2016.



Letters of transmittal

Letter dated 31 March 2017 from the Secretary-General addressed to the Chair of the Board of Auditors

In accordance with financial regulation 6.2 of the Financial Regulations and Rules of the United Nations, I have the honour to submit the financial statements of the United Nations escrow account established pursuant to Security Council resolution 1958 (2010) for the period from 1 January to 31 December 2016, which I hereby approve.

The financial statements have been completed and certified by the Controller as correct in all material respects.

(Signed) António Guterres

**Letter dated 30 June 2017 from the Chair of the Board of Auditors
addressed to the President of the Security Council**

I have the honour to transmit to you the report of the Board of Auditors on the United Nations escrow account established under the provisions of Security Council resolution 1958 (2010) for the period from 1 January to 31 December 2016.

(Signed) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors

**Report of the Board of Auditors on the audit of the
United Nations escrow account established under the
provisions of Security Council resolution 1958 (2010)
for the period from 1 January to 31 December 2016**

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I. Report of the Board of Auditors on the financial statements: audit opinion

Opinion

We have audited the financial statements of the United Nations escrow account established pursuant to Security Council resolution 1958 (2010), which comprise the statement of financial position (statement I) as at 31 December 2016 and the statement of financial performance (statement II), the statement of changes in net assets (statement III) and the statement of cash flows (statement IV) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the United Nations escrow account as at 31 December 2016 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section below entitled "Auditor's responsibilities for the audit of the financial statements". We are independent of the United Nations escrow account, in accordance with the ethical requirements relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and the auditor's report thereon

Management is responsible for the other information, which comprises the financial report for the year ended 31 December 2016 but does not include the financial statements and our auditor's report thereon. The United Nations escrow account has not prepared a financial report for the year ended 31 December 2016.

Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance thereon.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as management determines to be necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ability of the United Nations escrow account to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going-concern basis of accounting unless management intends either to liquidate the United Nations escrow account or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the United Nations escrow account.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or the overriding of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the United Nations escrow account.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Emphasis of matter: going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in paragraphs 11 and 12 of the notes to the financial statements concerning the going concern of the United Nations escrow account. The financial statements have not been prepared on a going-concern basis. The Administration is not aware of any facts, conditions or events that would risk the continuation of the escrow account until its dissolution date of 30 June 2017. The disclosures also confirm that the Security Council provides no liquidation phase or liquidation activity other than the return of remaining funds by 30 June 2017, and that the balances presented on the face of the statement of financial position are representative of fair value. The disclosures confirm that the escrow account has sufficient assets to discharge its liabilities.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the United Nations escrow account that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also examined the management issues and concluded that there are no material issues to draw to the attention of the Security Council. Therefore, we did not issue a long-form audit report.

(Signed) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors
(Lead Auditor)

(Signed) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania

(Signed) Kay **Scheller**
President of the German Federal Court of Auditors

30 June 2017

II. Certification of the financial statements

The financial statements of the United Nations escrow account established pursuant to Security Council resolution 1958 (2010) for the period from 1 January to 31 December 2016 have been prepared in accordance with financial rule 106.1.

The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. These notes provide additional information and clarifications for the financial activities related to Security Council resolution 1958 (2010) undertaken by the Organization during the period covered by these statements, for which the Secretary-General has administrative responsibility.

I certify that the appended financial statements of the United Nations escrow account established pursuant to Security Council resolution 1958 (2010), numbered I to IV, are correct in all material respects.

(Signed) Bettina Tucci **Bartsiotas**
Assistant Secretary-General
Controller

31 March 2017

III. Financial statements

United Nations escrow account established under the provisions of Security Council resolution 1958 (2010)

I. Statement of financial position as at 31 December 2016

(Thousands of United States dollars)

	<i>Note</i>	<i>31 December 2016</i>	<i>31 December 2015</i>
Assets			
Current assets			
Cash and cash equivalents	5	42 071	24 694
Investments	5, 6	110 355	127 243 ^a
Other assets	7	67	67
Total current assets		152 493	152 004
Non-current assets			
		—	—
Total assets		152 493	152 004
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	5	21	15
Employee benefits liabilities	8	510	444
Total current liabilities		531	459
Non-current liabilities			
		—	—
Total liabilities		531	459
Net of total assets and total liabilities		151 962	151 545
Net assets			
Accumulated surpluses	9	151 962	151 545
Total net assets		151 962	151 545

^a Restated to conform to the current presentation. See note 4.

The accompanying notes are an integral part of the financial statements.

**United Nations escrow account established under the provisions of
Security Council resolution 1958 (2010)**

II. Statement of financial performance for the year ended 31 December 2016

(Thousands of United States dollars)

	<i>Note</i>	<i>2016</i>	<i>2015</i>
Revenue			
Investment revenue	5	1 081	766
Total revenue		1 081	766
Expenses			
Employee salaries, allowances and benefits		612	566
Other operating expenses		45	74
Total expenses	10	657	640
Surplus for the year		424	126

The accompanying notes are an integral part of the financial statements.

**United Nations escrow account established under the provisions of
Security Council resolution 1958 (2010)**

III. Statement of changes in net assets for the year ended 31 December 2016

(Thousands of United States dollars)

	<i>Note</i>	<i>Net assets</i>
Net assets, 1 January 2015		151 550
Change in net assets		
Actuarial losses on employee benefits		(131)
Surplus for the year		126
Net assets as at 31 December 2015		151 545
Change in net assets		
Actuarial losses on employee benefits	8	(7)
Surplus for the year		424
Net assets as at 31 December 2016		151 962

The accompanying notes are an integral part of the financial statements.

United Nations escrow account established under the provisions of Security Council resolution 1958 (2010)

IV. Statement of cash flows for the year ended 31 December 2016

(Thousands of United States dollars)

	<i>Note</i>	<i>2016</i>	<i>2015</i>
Cash flows from operating activities			
Surplus for the year		424	126
Changes in assets:			
(Increase)/decrease in other assets		—	(30)
Changes in liabilities:			
Increase/(decrease) in accounts payable and accrued liabilities		6	(163)
Increase/(decrease) in employee benefits liabilities		59	56
Investment revenue presented as investing activities		(1 081)	(766)
Net cash flows used in operating activities		(592)	(777)
Cash flows from investing activities			
(Investments in)/withdrawals from main cash pool (net)		16 888	(8 016) ^a
Investment revenue		1 081	766
Net cash flows (used in)/from investing activities		17 969	(7 250)
Net increase/(decrease) in cash and cash equivalents		17 377	(8 027)
Cash and cash equivalents — beginning of year		24 694	32 721
Cash and cash equivalents — end of year	5	42 071	24 694

^a Restated to conform to the current presentation. See note 4.

The accompanying notes are an integral part of the financial statements.

United Nations escrow account established under the provisions of Security Council resolution 1958 (2010)

Notes to the financial statements

Note 1

Reporting entity

United Nations and its activities

1. The United Nations is an international organization founded in 1945 after the Second World War. The Charter of the United Nations was signed on 26 June 1945 and became effective on 24 October 1945. The primary objectives of the United Nations are as follows:

- (a) The maintenance of international peace and security;
- (b) The promotion of international economic and social progress and development programmes;
- (c) The universal observance of human rights;
- (d) The administration of international justice and law.

2. These objectives are implemented through the major organs of the United Nations, as follows:

(a) The General Assembly focuses on a wide range of political, economic and social issues, as well as financial and administrative aspects of the United Nations;

(b) The Security Council is responsible for various aspects of peacekeeping and peacemaking, including efforts to resolve conflicts, restore democracy, promote disarmament, provide electoral assistance, facilitate post-conflict peacebuilding, engage in humanitarian activities to ensure the survival of groups deprived of basic needs, and oversee the prosecution of persons responsible for serious violations of international humanitarian law;

(c) The Economic and Social Council plays a particular role in economic and social development, including a major oversight role in the efforts of other organizations of the United Nations system to address international economic, social and health problems;

(d) The International Court of Justice has jurisdiction over disputes between Member States brought before it for advisory opinions or binding resolutions.

3. The United Nations has its headquarters in New York and has major offices in Geneva, Nairobi and Vienna. It has peacekeeping and political missions, regional economic commissions, tribunals, training institutes and other centres located throughout the world.

United Nations escrow account established under the provisions of Security Council resolution 1958 (2010)

4. These financial statements relate to the United Nations escrow account established under the provisions of Security Council resolution 1958 (2010).

5. In that resolution, the Security Council requested the Secretary-General to take all actions necessary to terminate all residual activities under the oil-for-food programme. It authorized the Secretary-General to establish an escrow account and to ensure that an amount of \$20.0 million was retained in the escrow account until 31 December 2016, exclusively for the expenses of the United Nations related to the

orderly termination of the programme, including the Organization's support to Member State investigations and Member State proceedings related to the programme, and the expenses of the office of the High-level Coordinator created pursuant to resolution 1284 (1999).

6. In the same resolution, the Security Council authorized the Secretary-General to ensure that an amount of up to \$131.0 million was retained in the escrow account for the purpose of providing indemnification to the United Nations, its representatives, agents and independent contractors for a period of six years with regard to all activities in connection with the oil-for-food programme since its inception.

7. Furthermore, the Security Council requested that all funds remaining in the escrow account be transferred to the Government of Iraq by 31 December 2016. In its resolution 2335 (2016), the Council requested that the funds in the escrow accounts be retained until 30 June 2017, at which time all remaining funds should be transferred to the Government of Iraq, and that a final report be submitted three months after the transfer of any remaining funds.

8. The escrow account is regarded as an autonomous financial reporting entity which neither controls nor is controlled by any other United Nations reporting entity. Owing to the uniqueness of the governance and budgetary process of each of the United Nations reporting entities, the entities are not deemed to be subject to common control for the purposes of IPSAS-compliant reporting. The escrow account has no interests in associates or joint ventures.

9. The operations of the escrow account are administered by the Secretariat at United Nations Headquarters.

Note 2

Basis of preparation and authorization for issue

Basis of preparation

10. In accordance with the Financial Regulations and Rules of the United Nations, the financial statements are prepared on an accrual basis in accordance with IPSAS. The accounting policies, as summarized in note 3, have been applied consistently in the preparation and presentation of the financial statements. In accordance with the requirements of IPSAS, the financial statements, which present fairly the assets, liabilities, revenue and expenses of the escrow account, comprise the following:

- (a) Statement I: statement of financial position;
- (b) Statement II: statement of financial performance;
- (c) Statement III: statement of changes in net assets;
- (d) Statement IV: statement of cash flows using the indirect method;
- (e) A summary of significant accounting policies and other explanatory notes.

As the budget of the escrow account is not made publicly available, a comparison of budget and actual amounts is not presented.

Going concern

11. The financial statements of the escrow account have not been prepared on a going-concern basis, as the Security Council has provided for the continuation of the account for a limited time — previously up to 31 December 2016, and now up to 30 June 2017 (see para. 7 above). The ability to finance the operations until 30 June

2017 is ensured through the balance of the administration fund, which is more than sufficient. Notwithstanding the provision of the end date of the escrow account, the Council provides no liquidation phase or liquidation activity other than the return of all remaining funds by 30 June 2017. The Administration is not aware of any fact, condition or event that would risk the continuation of the escrow account until its dissolution.

12. Accordingly, taking into account the termination of the escrow account within six months, by 30 June 2017, the total investment in the main cash pool and the total amount of post-employment liabilities are classified as current assets and current liabilities, respectively. The balances presented on the face of the statement of financial position are representative of fair value.

Authorization for issue

13. The financial statements are certified by the Controller and approved by the Secretary-General. In accordance with Security Council resolution 1958 (2010), the Secretary-General transmits the financial statements to the Board of Auditors. The reports of the Board of Auditors shall be transmitted to the Council together with the audited financial statements.

Measurement basis

14. The financial statements are prepared using the historical cost convention except for certain investments, as stated in note 3. The financial statements are prepared for the year from 1 January to 31 December.

Functional and presentation currency

15. The functional currency and the presentation currency of the escrow account is the United States dollar. The financial statements are expressed in thousands of United States dollars.

16. Foreign currency transactions are translated into United States dollars at the United Nations operational rates of exchange at the date of transaction. The United Nations operational rates of exchange approximate the spot rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies (that is, currencies other than the functional currency) are translated at the United Nations year-end rates of exchange. Non-monetary foreign currency items measured at historical cost or fair value are translated at the United Nations operational rates of exchange prevailing at the date of transaction or when the fair value was determined.

17. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in the statement of financial performance on a net basis.

Materiality and use of judgment and estimation

18. Materiality is central to the preparation and presentation of the escrow account's financial statements; the escrow account's materiality framework provides a systematic method in guiding accounting decisions relating to presentation, disclosure, aggregation and offsetting. In general, an item is considered material if its omission or its aggregation would have an impact on the conclusions or decisions of the users of the financial statements.

19. Preparing financial statements in accordance with IPSAS requires the use of estimates, judgments and assumptions in the selection and application of accounting

policies and in the reported amounts of certain assets, liabilities, revenues and expenses. Accounting estimates and underlying assumptions are reviewed on an ongoing basis, and revisions to estimates are recognized in the year in which the estimates are revised and in any future year affected. Significant estimates and assumptions that may result in material adjustments in future years include: actuarial measurement of employee benefits; classification of financial instruments; discount rates used in the calculation of the value of provisions; and classification of contingent assets and liabilities.

Future accounting pronouncements

20. The impact of the following significant future accounting pronouncements of the IPSAS Board on the financial statements of the escrow account is being monitored:

(a) Consequential amendments arising from chapters 1-4 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: the objective of this project is to make revisions to IPSAS standards that reflect concepts from these chapters, in particular the objectives of financial reporting and the qualitative characteristics and constraints of information;

(b) Employee benefits: the objective of this project is to issue a revised IPSAS 25: Employee benefits which will converge with the underlying International Accounting Standard IAS 19: Employee benefits;

(c) Public sector-specific financial instruments: to develop this accounting guidance, the project will focus on issues related to public sector-specific financial instruments which are outside the scope of those covered by IPSAS 28: Financial instruments: presentation; IPSAS 29: Financial instruments: recognition and measurement; and IPSAS 30: Financial instruments: disclosures;

(d) Social benefits: the objective of this project is to identify the circumstances and manner in which expenses and liabilities of certain social benefits should be reflected in financial statements;

(e) Public sector combinations: this project will prescribe the accounting treatment for public sector combinations and develop a new standard setting out the classification and measurement of public sector combinations, namely, transactions or other events that bring two or more separate operations into a single public sector entity;

(f) Emissions trading schemes: this project will consider issues related to emissions trading schemes with the aim of developing a standard or standards that provide requirements to administrators and participants in such schemes;

(g) Heritage assets: the objective of this project is to develop accounting requirements for heritage assets;

(h) Revenue: the aim of this project is to develop one or more IPSAS standards covering revenue transactions (exchange and non-exchange). The scope is to develop new standards-level requirements and guidance on revenue to amend or supersede that currently contained in IPSAS 9: Revenue from exchange transactions; IPSAS 11: Construction contracts; and IPSAS 23: Revenue from non-exchange transactions (taxes and transfers);

(i) Non-exchange expenses: the aim of this project is to develop a standard or standards that provide recognition and measurement requirements applicable to providers of non-exchange transactions, except for social benefits.

Future requirements of IPSAS

21. On 30 January 2015, the IPSAS Board published five new standards: IPSAS 34: Separate financial statements; IPSAS 35: Consolidated financial statements; IPSAS 36: Investments in associates and joint ventures; IPSAS 37: Joint arrangements; and IPSAS 38: Disclosure of interests in other entities. These standards took effect on 1 January 2017. The escrow account has no activities that come under the scope of these standards.

Note 3

Significant accounting policies

Financial assets: classification

22. The escrow account classifies its financial assets in one of the following categories at initial recognition and re-evaluates the classification at each reporting date; the classification of financial assets depends primarily on the purpose for which the financial assets are acquired:

<i>Classification</i>	<i>Financial assets</i>
Fair value through surplus or deficit	Investments in main cash pool
Loans and receivables	Cash and cash equivalents, receivables

23. All financial assets are initially measured at fair value. The escrow account initially recognizes financial assets classified as loans and receivables on the date that they originated. All other financial assets are recognized initially on the trade date, which is the date on which the escrow account becomes party to the contractual provisions of the instrument.

24. Financial assets with maturities in excess of 12 months at the reporting date are categorized as non-current assets in the financial statements. Assets denominated in foreign currencies are translated into United States dollars at the United Nations operational rates of exchange prevailing at the reporting date, with net gains or losses recognized in surplus or deficit in the statement of financial performance.

25. Financial assets at fair value through surplus or deficit are those that either have been designated in this category at initial recognition, are held for trading or are acquired principally for the purpose of selling in the short term. These assets are measured at fair value at each reporting date, and any gains or losses arising from changes in the fair value are presented in the statement of financial performance in the period in which they arise.

26. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recorded at fair value plus transaction costs and subsequently reported at amortized cost calculated using the effective interest method. Interest revenue is recognized on a time proportion basis using the effective interest rate method on the respective financial asset.

27. Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. Evidence of impairment includes default or delinquency of the counterparty or permanent reduction in the value of the asset. Impairment losses are recognized in the statement of financial performance in the year in which they arise. Financial assets are derecognized when the rights to

receive cash flows have expired or have been transferred and the escrow account has transferred substantially all risks and rewards of the financial asset.

28. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Financial assets: investment in main cash pool

29. The United Nations Treasury invests funds pooled from the Secretariat and other participating entities. Participation in the cash pools implies sharing the risk and returns on investments with the other participants. Since the funds are commingled and invested on a pool basis, each participant is exposed to the overall risk of the investments portfolio to the extent of the amount of cash invested.

30. The escrow account's investment in the main cash pool is included as part of cash and cash equivalents, short-term investments and long-term investments in the statement of financial position, depending on when they are expected to be realized.

Financial assets: cash and cash equivalents

31. Cash and cash equivalents comprise cash at bank and on hand, and short-term, highly liquid investments with a maturity of three months or less from the date of acquisition.

Financial assets: receivables

32. Receivables comprise amounts receivable for goods or services provided to other entities, and receivables from staff. Receivables from other United Nations reporting entities are also included in this category. Receivables are subject to specific review, and an allowance for doubtful receivables is assessed on the basis of recoverability and ageing.

Other assets

33. Other assets are prepayments that are recorded as an asset until goods are delivered or services are rendered by the other party, at which point the expense is recognized.

Financial liabilities

34. Financial liabilities are classified as "other financial liabilities" and include accounts payable and accruals. Financial liabilities so classified are initially recognized at fair value and subsequently measured at amortized cost. Financial liabilities with a duration of less than 12 months are recognized at their nominal value. The escrow account re-evaluates the classification of financial liabilities at each reporting date and derecognizes financial liabilities when its contractual obligations are discharged, waived, cancelled or expired.

35. Other accounts payable and accrued expenses arise from the purchase of goods and services that have been received but not paid for as at the reporting date. They are stated at invoiced amounts, less payment discounts at the reporting date. Payables are recognized and subsequently measured at their nominal value, given that they are generally due within 12 months.

Employee benefits

36. Employees comprise staff members, as described in Article 97 of the Charter of the United Nations, whose employment and contractual relationship are defined by a letter of appointment subject to regulations promulgated by the General Assembly pursuant to Article 101 (1) of the Charter. Employee benefits are classified as short-term benefits, long-term benefits, post-employment benefits and termination benefits.

Short-term employee benefits

37. Short-term employee benefits are employee benefits (other than termination benefits) that are payable within 12 months after the end of the year in which the employee renders the related services. Short-term employee benefits comprise first-time employee benefits (assignment grants), regular daily/weekly/monthly benefits (wages, salaries and allowances), compensated absences (paid sick leave and maternity/paternity leave) and other short-term benefits (death grant, education grant, reimbursement of taxes and home leave) provided to current employees on the basis of services rendered. Material balances which are accrued but not paid are recognized as current liabilities in the statement of financial position.

Post-employment benefits

38. Post-employment benefits comprise after-service health insurance, end-of-service repatriation benefits and annual leave that are accounted for as defined benefit plans in addition to the pension through the United Nations Joint Staff Pension Fund.

Defined benefit plans

39. Defined benefit plans are those where the escrow account's obligation is to provide agreed benefits and therefore the escrow account bears the actuarial risks. The liability for defined benefit plans is measured at the present value of the defined benefit obligation. Changes in the liability for defined benefit plans, excluding actuarial gains and losses, are recognized in the statement of financial performance in the year in which they occur. The escrow account has elected to recognize changes in the liability for defined benefit plans from actuarial gains and losses directly through the statement of changes in net assets. As at the reporting date, the escrow account did not hold any plan assets as defined by IPSAS 25: Employee benefits.

40. The defined benefit obligations are calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using the interest rates of high-quality corporate bonds with maturity dates approximating those of the individual plans.

After-service health insurance

41. After-service health insurance provides worldwide coverage of necessary medical expenses of eligible former staff members and their dependants. Upon end of service, staff members and their dependants may elect to participate in a defined benefit health insurance plan of the United Nations, provided they meet certain eligibility requirements, including 10 years of participation in a United Nations health plan for those recruited after 1 July 2007 and 5 years for those recruited prior to that date. The after-service health insurance liability represents the present value of the share of the escrow account's medical insurance costs for retirees and the

post-retirement benefit accrued to date by active staff. A factor in the after-service health insurance valuation is to consider the contributions of all plan participants in determining the escrow account's residual liability. Contributions from retirees are deducted from the gross liability, and a portion of the contributions from active staff is also deducted to arrive at the escrow account's residual liability in accordance with the cost-sharing ratios authorized by the General Assembly.

Repatriation benefits

42. Upon end of service, staff members who meet certain eligibility requirements, including residency outside their country of nationality at the time of separation, are entitled to a repatriation grant, which is based on length of service, and travel and removal expenses. A liability is recognized from when the staff member joins the escrow account and is measured as the present value of the estimated liability for settling such entitlements.

Annual leave

43. The liabilities for annual leave represent unused accumulated leave days that are projected to be settled through a monetary payment to employees upon their separation from the Organization. The United Nations recognizes as a liability the actuarial value of the total accumulated unused leave days of all staff members, up to a maximum of 60 days (18 days for temporary staff), as at the date of the statement of financial position. The methodology applies a last-in, first-out assumption in the determination of the annual leave liabilities whereby staff members access current-period leave entitlements before they access accumulated annual leave balances relating to prior periods. Effectively, the accumulated annual leave benefit is accessed more than 12 months after the end of the reporting period in which the benefit arose, and overall there is an increase in the level in accumulated annual leave days, pointing to the commutation of accumulated annual leave into a cash settlement at end of service as the true liability of the Organization. The accumulated annual leave benefit reflecting the outflow of economic resources from the Organization at end of service is therefore classified as "other long-term benefit," it being noted that the portion of the accumulated annual leave benefit that is expected to be settled through monetary payment within 12 months after the reporting date is classified as a current liability. In line with IPSAS 25: Employee benefits, other long-term benefits must be valued similarly as post-employment benefits; therefore, the United Nations values its accumulated annual leave benefit liability as a defined post-employment benefit that is actuarially valued.

Pension plan: United Nations Joint Staff Pension Fund

44. The escrow account is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified in article 3 (b) of its regulations, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

45. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to participating organizations. The escrow account, in line with other participating organizations, is not in a position to identify its

proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, the escrow account has treated this plan as if it were a defined contribution plan, in line with the requirements of IPSAS 25: Employee benefits. The escrow account's contributions to the Pension Fund during the financial year are recognized as employee benefit expenses in the statement of financial performance.

Termination benefits

46. Termination benefits are recognized as an expense only when the escrow account is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate the employment of a staff member before the normal retirement date or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Termination benefits to be settled within 12 months are reported at the amount expected to be paid. If they fall due more than 12 months after the reporting date, they are discounted if the impact of discounting is material.

Other long-term employee benefits

47. Other long-term employee benefit obligations are benefits, or portions of benefits, that are not due to be settled within 12 months after the end of the year in which the employee provides the related services.

Provisions

48. Provisions are liabilities recognized for future expenditure of uncertain amount or timing. A provision is recognized if, as a result of a past event, the escrow account has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision is measured as the best estimate of the amount required to settle the present obligation at the reporting date. Where the effect of the time value of money is material, the provision is the present value of the amount expected to be required to settle the obligation. Provisions are not recognized for future operating losses.

Contingent liabilities and assets

49. Contingent liabilities represent possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the escrow account; or current obligations that arise from past events but are not recognized because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle them, or because the amount of the obligations cannot be reliably measured.

50. Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the escrow account.

Commitments

51. Commitments are future expenses to be incurred on contracts entered into by the reporting date and that the escrow account has minimal, if any, discretion to avoid in the ordinary course of operations. Commitments include contracts for the supply of goods and services that will be delivered to the escrow account in future periods and other non-cancellable commitments.

Exchange revenue

52. Exchange transactions are those in which the escrow account provides goods or services. Revenue comprises the fair value of consideration received or receivable for the sale of goods and services. Revenue is recognized when it can be reliably measured, when the inflow of future economic benefits is probable and when specific criteria have been met.

Investment revenue

53. Investment revenue includes the escrow account's share of net main cash pool income and other interest incomes. The net main cash pool income includes any gains and losses on the sale of investments, which are calculated as the difference between the sale proceeds and the book value. Transaction costs that are directly attributable to the investment activities are netted against income, and the net income is distributed proportionately to all main cash pool participants on the basis of their daily balances. The main cash pool income also includes unrealized market gains and losses on securities, which is distributed proportionately to all participants on the basis of their end-of-year balances.

Expenses

54. Expenses are decreases in economic benefits or service potential during the year in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets and are recognized on an accrual basis when goods are delivered and services are rendered, regardless of the terms of payment.

55. Employee salaries include international, national and general temporary staff salaries, post adjustments and staff assessments. The allowances and benefits include other staff entitlements, namely, pension and insurance, assignment, repatriation, hardship and other allowances. Contractual services relate to consultancy services, and other operating expenses include any maintenance, security, rental, insurance and allowance for bad debt or write-off expenses.

Note 4

Segment reporting

56. The escrow account consists of two funds: the administration fund for the termination of residual activities of the oil-for-food programme and the indemnification reserve fund for the escrow account (see paras. 5 and 6 above).

Segment revenue, expenses, assets and liabilities

Segment statement of financial position for the year ended 31 December 2016

(Thousands of United States dollars)

	Administration	Indemnification reserve	Total
Assets			
Cash and cash equivalents	4 213	37 858	42 071
Investments	11 049	99 306	110 355
Other assets	67	—	67
Total assets	15 329	137 164	152 493

	<i>Administration</i>	<i>Indemnification reserve</i>	<i>Total</i>
Liabilities			
Accounts payable -- other	21	–	21
Employee benefits payable	510	–	510
Total liabilities	531	–	531
Net assets	14 798	137 164	151 962
Fund balances and reserves			
Accumulated surplus	14 798	137 164	151 962
Total fund balances and reserves	14 798	137 164	151 962

**Segment statement of financial performance for the year ended
31 December 2016**

(Thousands of United States dollars)

	<i>Administration</i>	<i>Indemnification reserve</i>	<i>Total</i>
Revenue			
Interest revenue	112	969	1 081
Total revenue	112	969	1 081
Employee salaries, allowances and benefits	612	–	612
Other operating expenses	45	–	45
Total segment expense	657	–	657
Surplus/(deficit) for the year	(545)	969	424

Segment statement of financial position for the year ended 31 December 2015

(Thousands of United States dollars)

	<i>Administration</i>	<i>Indemnification reserve</i>	<i>Total</i>
Assets			
Cash and cash equivalents	2 559	22 135	24 694
Investments ^a	13 183	114 060	127 243
Other assets	67	–	67
Total assets	15 809	136 195	152 004
Liabilities			
Accounts payable -- other	15	–	15
Employee benefits payable	444	–	444
Total liabilities	459	–	459
Net assets	15 350	136 195	151 545

	<i>Administration</i>	<i>Indemnification reserve</i>	<i>Total</i>
Fund balances and reserves			
Accumulated surplus	15 350	136 195	151 545
Total fund balances and reserves	15 350	136 195	151 545

^a The "investments" share of the main cash pool has been restated to include \$243,000 (\$25,000 under "Administration" and \$218,000 under "indemnification reserve") relating to accrued cash pool investment income, which was previously reported as accounts receivable.

Segment statement of financial performance for the year ended 31 December 2015

(Thousands of United States dollars)

	<i>Administration</i>	<i>Indemnification reserve</i>	<i>Total</i>
Revenue			
Interest revenue	82	684	766
Total revenue	82	684	766
Employee salaries, allowances and benefits	566	—	566
Other operating expenses	74	—	74
Total segment expense	640	—	640
Surplus/(deficit) for the year	(558)	684	126

Note 5

Financial instruments

(Thousands of United States dollars)

	<i>31 December 2016</i>	<i>31 December 2015</i>
Financial assets		
Fair value through surplus or deficit		
Investments — main cash pool (short-term)	110 355	127 243 ^a
Total fair value through surplus or deficit	110 355	127 243
Loans and receivables		
Cash and cash equivalents — main cash pool	42 071	24 694
Total cash and cash equivalents	42 071	24 694
Loans and receivables	—	—
Total carrying amount of financial assets	152 426	151 937
Amount of which relates to financial assets held in main cash pool	152 426	151 937
Financial liabilities		
Other accounts payable and accrued liabilities	21	15
Total carrying amount of financial liabilities	21	15

	31 December 2016	31 December 2015
Summary investment revenue		
Share of main cash pool net income	1 173	766
Total investment revenue	1 173	766

^a Restated to conform to the current presentation. See note 4.

Note 6

Financial risk management and the main cash pool

57. In addition to directly held cash and cash equivalents and investments, the escrow account participates in the United Nations main cash pool. The main cash pool comprises operational bank account balances in a number of currencies and investments in United States dollars.

58. Pooling the funds has a positive effect on overall investment performance and risk because of economies of scale and the ability to spread yield curve exposures across a range of maturities. The allocation of cash pool assets (cash and cash equivalents, short-term investments and long-term investments) and revenue is based on the principal balance of each participating entity.

59. As at 31 December 2016, the escrow account participated in the main cash pool, which held total assets of \$9,033.6 million (2015: \$7,783.9 million), of which \$152.4 million was due to the escrow account (2015: \$151.9 million), and its share of revenue from the main cash pool was \$1.1 million (2015: \$0.8 million).

Summary of assets and liabilities of the main cash pool as at 31 December 2016

(Thousands of United States dollars)

	Main cash pool
Fair value through surplus or deficit	
Short-term investments	4 389 616
Long-term investments	2 125 718
Total fair value through surplus or deficit investments	6 515 334
Loans and receivables	
Cash and cash equivalents	2 493 332
Accrued investment revenue	24 961
Total loans and receivables	2 518 293
Total carrying amount of financial assets	9 033 627
Cash pool liabilities	
Payable to the escrow account	152 426
Payable to other cash pool participants	8 881 201
Total liabilities	9 033 627
Net assets	—

**Summary of revenue and expenses of the main cash pool for the year ended
31 December 2016**

(Thousands of United States dollars)

	<i>Main cash pool</i>
Investment revenue	73 903
Foreign exchange losses	(5 105)
Unrealized losses	(13 474)
Bank fees	(646)
Revenue and expenses from main cash pool	54 678

Summary of assets and liabilities of the main cash pool as at 31 December 2015

(Thousands of United States dollars)

	<i>Main cash pool</i>
Fair value through surplus or deficit	
Short-term investments	3 888 712
Long-term investments	2 617 626
Total fair value through surplus or deficit investments	6 506 338
Loans and receivables	
Cash and cash equivalents	1 265 068
Accrued investment revenue	12 462
Total loans and receivables	1 277 530
Total carrying amount of financial assets	7 783 868
Cash pool liabilities	
Payable to the escrow account	151 937
Payable to other cash pool participants	7 631 931
Total liabilities	7 783 868
Net assets	—

**Summary of revenue and expenses of the main cash pool for the year ended
31 December 2015**

(Thousands of United States dollars)

	<i>Main cash pool</i>
Investment revenue	51 944
Foreign exchange losses	(11 720)
Unrealized losses	(10 824)
Bank fees	(525)
Revenue and expenses from main cash pool	28 875

Financial risk management

60. The United Nations Treasury is responsible for investment and risk management of the main cash pool, including the conduct of investment activities in accordance with the United Nations Investment Management Guidelines.

61. The objectives of investment management are to preserve capital and ensure sufficient liquidity to meet operating cash requirements while attaining a competitive market rate of return on each investment pool. Investment quality, safety and liquidity are emphasized over the market-rate-of-return component of the objectives.

62. An Investment Committee periodically evaluates investment performance and assesses compliance with the Investment Management Guidelines and makes recommendations for updates thereto.

Financial risk management: credit risk

63. The Investment Management Guidelines require ongoing monitoring of issuer and counterparty credit ratings. Permissible main cash pool investments may include, but are not restricted to, bank deposits, commercial paper, supranational securities, government agency securities and government securities with maturities of five years or less. The main cash pool does not invest in derivative instruments such as asset-backed and mortgage-backed securities or equity products.

64. The Investment Management Guidelines require that investments not be made in issuers whose credit ratings are below specifications; they also provide for maximum concentrations with given issuers. These requirements were met at the time of investment.

65. The credit ratings used for the main cash pool are those determined by major credit-rating agencies; Standard & Poor's, Moody's and Fitch are used to rate bonds and discounted instruments, and the Fitch viability rating is used to rate bank term deposits. The credit ratings at year-end are shown in the table below.

Investments of the cash pool by credit ratings as at 31 December 2016

Main cash pool		Ratings as at 31 December 2016				Ratings as at 31 December 2015			
Bonds (long-term ratings)									
	AAA	AA+/AA/AA-	BBB	NR		AAA	AA+/AA/AA-	NR	
S&P	33.6%	55.1%	5.6%	5.7%	S&P	37.7%	54.2%	8.1%	
Fitch	62.4%	28.3%		9.3%	Fitch	61.9%	26.5%	11.6%	
	Aaa	Aa1/Aa2/Aa3				Aaa	Aa1/Aa2/Aa3		
Moody's	50.3%	49.7%			Moody's	65.8%	34.2%		
Commercial papers (short-term ratings)									
	A-1					A-1+/A-1			
S&P	100.0%				S&P	100.0%			
	F1					F1+			
Fitch	100.0%				Fitch	100.0%			
	P-1					P-1			
Moody's	100.0%				Moody's	100.0%			
Reverse repurchase agreement (short-term ratings)									
	A-1+					A-1+			
S&P	100.0%				S&P	100.0%			

Abbreviation: NR, not rated.

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Other market price risk

70. The main cash pool is not exposed to significant other price risk because it does not sell short, borrow securities or purchase securities on margin, which limits the potential loss of capital.

Accounting classifications and fair value hierarchy

71. All investments are reported at fair value through surplus and deficit. Cash and cash equivalents carried at nominal value are deemed to be an approximation of fair value.

72. The fair value hierarchy levels are defined as:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

73. The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date and is determined by the independent custodian on the basis of the valuation of securities sourced from third parties. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The quoted market price used for financial assets held in the main cash pool is the current bid price.

74. The fair value of financial instruments that are not traded on an active market is determined by using valuation techniques which maximize the use of observable market data. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in level 2.

75. The following fair value hierarchy presents the main cash pool assets measured at fair value at the reporting date. There were no level 3 financial assets, nor any liabilities carried at fair value or any significant transfers of financial assets between fair value hierarchy classifications.

Fair value hierarchy for investments as at 31 December: main cash pool

(Thousands of United States dollars)

	31 December 2016			31 December 2015		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial assets at fair value through surplus or deficit						
Bonds — corporates	697 676	—	697 676	149 682	—	149 682
Bonds — non-United States agencies	1 903 557	—	1 903 557	2 190 965	—	2 190 965
Bonds — non-United States sovereigns	124 854	—	124 854	124 612	—	124 612
Bonds — supranational	213 224	—	213 224	139 828	—	139 828
Bonds — United States treasuries	586 739	—	586 739	1 092 139	—	1 092 139

United Nations escrow account established under the
provisions of Security Council resolution 1958 (2010)

Notes to the 2016 financial statements (continued)

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	31 December 2016			31 December 2015		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Main cash pool — commercial papers	149 285	—	149 284	949 112	—	949 112
Main cash pool — term deposits	—	2 840 000	2 840 000	—	1 860 000	1 860 000
Main cash pool total	3 675 334	2 840 000	6 515 334	4 646 338	1 860 000	6 506 338

Note 7

Other assets

(Thousands of United States dollars)

	31 December 2016	31 December 2015
Advances to staff	67	67
Total other assets	67	67

Note 8

Employee benefits liabilities

(Thousands of United States dollars)

	Current	Non-current	Total as at 31 December 2016
After-service health insurance	292	—	292
Annual leave	97	—	97
Repatriation benefits	111	—	111
Subtotal, defined benefit liabilities	500	—	500
Accrued home leave entitlements	10	—	10
Total employee benefits liabilities^a	510	—	510

(Thousands of United States dollars)

	Current	Non-current	Total as at 31 December 2015
After-service health insurance	243	—	243
Annual leave	95	—	95
Repatriation benefits	101	—	101
Subtotal, defined benefit liabilities	439	—	439
Accrued home leave entitlements	5	—	5
Total employee benefits liabilities^a	444	—	444

^a See note 1, para. 12.

76. The liabilities arising from post-employment benefits are determined by independent actuaries and are established in accordance with the Staff Regulations of the United Nations and Staff Rules. Full actuarial valuations are usually undertaken every two years. The most recent actuarial valuation was conducted as at 31 December 2015, and the valuation was rolled forward to 31 December 2016. The liabilities pertaining to employment benefits were settled at the time of the

termination of the escrow account on 30 June 2017, and hence are classified as current in the statement of financial position.

Actuarial valuation — assumptions

77. Management reviews and selects assumptions and methods used by the actuaries in the year-end valuation to determine the expense and contribution requirements for the employee benefits. The principal actuarial assumptions used to determine the employee benefit obligations as at 31 December 2016 are shown in the table below.

Actuarial assumptions

(Percentage)

	<i>After-service health insurance</i>	<i>Repatriation benefits</i>	<i>Annual leave</i>
Discount rates, 31 December 2015 valuation	3.49	3.67	3.73
Discount rates, 31 December 2016 roll-forward	3.44	3.55	3.61
Inflation, 31 December 2015 valuation	4.0-6.4	2.25	—
Inflation, 31 December 2016 roll-forward	4.0-6.0	2.25	—

78. Discount rates are based on a weighted blend of three discount rate assumptions based on the currency denomination of the different cash flows: United States dollars (Citigroup Pension Discount Curve), euros (corporate bond yield curve) and Swiss francs (Federation bonds yield curve). Consistent with the decrease observed since 31 December 2015 in the interest rates of all maturities in the three areas, lower discount rates were assumed for the 31 December 2016 roll-forward.

79. The per capita claim costs for the after-service health insurance plans are updated to reflect recent claims and enrolment experience. The health-care cost trend rate assumption reflects the current short-term expectations of the after-service health insurance plan's cost increases and economic environment. Medical cost trend assumptions used for the valuation as at 31 December 2015 were: a flat health-care yearly escalation rate of 4.0 per cent (2014: 5.0 per cent) for non-United States medical plans, and health-care escalation rates of 6.4 per cent (2014: 6.8 per cent) for all other medical plans (except 5.9 per cent (2014: 6.1 per cent) for the United States Medicare plan and 4.9 per cent (2014: 5.0 per cent) for the United States dental plan), grading down to 4.5 per cent over nine years.

80. With regard to the valuation of repatriation benefits as at 31 December 2015, inflation in travel costs was assumed at 2.25 per cent (2014: 2.5 per cent), based on the projected United States inflation rate over the next 10 years.

81. Annual leave balances were assumed to increase at the following annual rates during the staff member's projected years of service: 1-3 years, 10.9 days; 4-8 years, 1 day; and over 8 years, 0.5 days up to a maximum 60 days.

82. Assumptions regarding future mortality are based on published statistics and mortality tables. Salary increases, retirement, withdrawal and mortality assumptions are consistent with those used by the United Nations Joint Staff Pension Fund in making its actuarial valuation.

Movement in employee benefits liabilities accounted for as defined benefit plans

(Thousands of United States dollars)

	2016	2015
Net defined benefit liabilities as at 1 January	444	257
Current service cost	45	49
Interest cost	15	13
Benefits paid	(6)	(6)
Total net costs recognized in the statement of financial performance	54	56
Actuarial losses recognized directly in the statement of changes in net assets	7	131
Net defined benefit liabilities as at 31 December	505	444
Accrued employee benefits	5	–
Total employee benefits liabilities as at 31 December	510	444

83. The cumulative amount of actuarial gains and losses recognized in the statement of changes in net assets is a net loss of \$138,000 (2015: net loss of \$131,000).

Medical costs sensitivity analysis

84. The principal assumption in the valuation of after-service health insurance is the rate at which medical costs are expected to increase in the future. The sensitivity analysis looks at the change in liability due to changes in medical cost rates while holding other assumptions constant; the key assumption held constant is the discount rate. Should the medical cost trend assumption vary by 1 per cent, this would impact the measurement of the defined benefit obligations as shown in the table below.

(Thousands of United States dollars)

	Increase	Decrease
1 per cent movement in the assumed medical costs trend rates:		
31 December 2016		
Effect on the defined benefit obligation	108	(78)
Effect on the aggregate of the current service cost and interest cost	20	(14)
1 per cent movement in the assumed medical costs trend rates:		
31 December 2015		
Effect on the defined benefit obligation	90	(65)
Effect on the aggregate of the current service cost and interest cost	17	(12)

Discount rate sensitivity analysis

85. The changes in discount rates are driven by the discount curve, which is calculated on the basis of corporate or government bonds. The bonds markets have been volatile over the reporting period, and the volatility has an impact on the discount rate assumption. Should the discount rate assumption vary by 1 per cent, its impact on the obligations would be as shown in the table below.

Discount rate sensitivity to end-of-year employee benefits liabilities

(Thousands of United States dollars)

	After-service health insurance	Repatriation benefits	Annual leave
For the year ended 31 December 2016:			
Increase of discount rate by 1 per cent	(76)	(12)	(9)
as a percentage of end-of-year liability	(26%)	(11%)	(9%)
Decrease of discount rate by 1 per cent	108	13	11
as a percentage of end-of-year liability	37%	12%	11%
For the year ended 31 December 2015:			
Increase of discount rate by 1 per cent	(63)	(11)	(9)
as a percentage of end-of-year liability	(26%)	(11%)	(9%)
Decrease of discount rate by 1 per cent	90	12	11
as a percentage of end-of-year liability	37%	12%	12%

United Nations Joint Staff Pension Fund

86. The Regulations of the United Nations Joint Staff Pension Fund state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

87. The escrow account's financial obligation to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently 7.9 per cent for participants and 15.8 per cent for member organizations), together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are payable only if and when the Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as at the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions that each paid during the three years preceding the valuation date.

88. The actuarial valuation performed as at 31 December 2013 revealed an actuarial deficit of 0.72 per cent (a deficit of 1.87 per cent in the 2011 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as at 31 December 2013 was 24.42 per cent of pensionable remuneration, compared with the actual contribution rate of 23.70 per cent. The next actuarial valuation will be conducted as at 31 December 2017.

89. As at 31 December 2013, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 127.5 per cent (130.0 per cent in the 2011 valuation). The funded ratio was 91.2 per cent (86.2 per cent in the 2011 valuation) when the current system of pension adjustments was taken into account.

90. After assessing the actuarial sufficiency of the Pension Fund, the consulting actuary concluded that there was no requirement as at 31 December 2013 for deficiency payments under article 26 of the Regulations of the Fund, as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund.

In addition, the market value of assets exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of reporting, the General Assembly had not invoked the provision of article 26.

91. The Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board on the audit every year. The Fund publishes quarterly reports on its investments, which can be viewed by visiting the Fund's website.

Note 9

Net assets

92. Net assets, which amounted to \$151.9 million as at 31 December 2016 (2015: \$151.5 million), represent the residual interest in the assets of the escrow account after the deduction of all liabilities. The financial statements reflect the aggregation of two funds, the administration fund and the indemnification reserve fund (see note 4).

Note 10

Expenses

93. Expenses of \$0.7 million (2015: \$0.6 million) represent those related to the termination of residual activities of the oil-for-food programme. There was no expense related to the Office of the Independent Inquiry Committee to support the investigations and proceedings of Member States (2015: none).

Note 11

Related parties

Key management personnel

94. Key management personnel are those with the ability to exercise significant influence over financial and operating decisions of the escrow account and comprise the Secretary-General, the Deputy Secretary-General and certain officials at the Under-Secretary-General and Assistant Secretary-General levels in the Department of Management of the Secretariat. During the year, the escrow account paid no remuneration or other benefits to key management personnel or close family members. As at the reporting date, there were no advances or loans issued to key management personnel from the escrow account.

Note 12

Contingent liabilities and contingent assets

95. In the normal course of operations, the escrow account may be subject to claims which can be categorized as corporate and commercial; administrative law; and other (for example, guarantees). As at the reporting date, the escrow account had no such contingent liabilities and no contingent assets.

96. In accordance with Security Council resolution 1958 (2010), the Secretariat is negotiating an agreement with the Government of Iraq under which the Government would provide appropriate indemnification to the United Nations, its representatives, agents and independent contractors with regard to all activities undertaken in connection with the oil-for-food programme since its inception. Under the agreement, the Government of Iraq would also agree to provide a waiver of any future claims that it may have against the United Nations, its representatives, agents and independent contractors with regard to all activities undertaken in connection with the oil-for-food programme since its inception.

Note 13

Events after the reporting date

97. No material events, favourable or unfavourable, have occurred between the date of the financial statements and the date when the financial statements were authorized for issue that would have had a material impact on these statements.



Security Council

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Note by the Secretary-General

The Secretary-General has the honour to transmit herewith to the Security Council the report of the Board of Auditors on the financial statements of the United Nations Compensation Commission for the year ended 31 December 2016.



Report of the Board of Auditors to the Security Council on the financial statements of the United Nations Compensation Commission for the year ended 31 December 2016

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Letter of transmittal

**Letter dated 30 June 2017 from the Chair of the Board of Auditors
addressed to the Secretary-General**

I have the honour to transmit to you the report of the Board of Auditors on the United Nations Compensation Commission for the year ended 31 December 2016.

(Signed) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors

I. Report of the Board of Auditors on the financial statements: audit opinion

Opinion

We have audited the financial statements of the United Nations Compensation Commission, which comprise the statement of financial position (statement I) as at 31 December 2016 and the statement of financial performance (statement II), the statement of changes in net assets/equity (statement III) and the statement of cash flows (statement IV) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the United Nations Compensation Commission as at 31 December 2016 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section below entitled "Auditor's responsibilities for the audit of the financial statements". We are independent of the United Nations Compensation Commission, in accordance with the ethical requirements relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and the auditor's report thereon

Management is responsible for the other information, which comprises the financial report for the year ended 31 December 2016, contained in chapter IV below, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the financial report, and, in doing so, we have found that the financial report is materially consistent with the financial statements. On the basis of the work that we have performed, we conclude that there is no material misstatement in the financial report. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as management determines to be necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ability of the United Nations Compensation Commission to continue as a going concern, disclosing matters related to the going concern and using the going-concern basis of accounting unless management intends either to liquidate the

United Nations Compensation Commission or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the United Nations Compensation Commission.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or the overriding of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the United Nations Compensation Commission.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Draw conclusions as to the appropriateness of management's use of the going-concern basis of accounting and, on the basis of the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the ability of the United Nations Compensation Commission to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the United Nations Compensation Commission to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings,

including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the United Nations Compensation Commission that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of the United Nations Compensation Commission.

(Signed) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors
(Lead Auditor)

(Signed) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania

(Signed) Kay **Scheller**
President of the German Federal Court of Auditors

II. Long-form report of the Board of Auditors

Summary

The Board of Auditors has audited the financial statements of the United Nations Compensation Commission for the year ended 31 December 2016, which have been prepared under the International Public Sector Accounting Standards (IPSAS). The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations as well as the International Standards on Auditing.

Audit opinion

In the opinion of the Board, the financial statements present fairly, in all material respects, the financial position of the Commission as at 31 December 2016 and its financial performance and cash flows for the year then ended, in accordance with IPSAS.

Overall conclusion

The Commission's operating reserve improved from \$6.9 million (2015) to \$7.8 million in 2016, representing a 13 per cent increase. The Commission's financial position remains sound. The Board found no material misstatements that would affect its opinion on the financial statements of the Commission. The Board notes decision 274 (2016) of the Governing Council of the Commission to postpone Iraq's obligation to deposit 5 per cent of the proceeds from export sales of petroleum, petroleum products and natural gas to the United Nations Compensation Fund until 1 January 2018, which will have an impact on the activities and time frame for the liquidation of the Commission. The end of the Commission's mandate cannot be realistically estimated with any certainty given the situation in Iraq.

Key findings

Non-recognition of the cost of services on an accrual basis

The Commission reimburses the cost of various services provided by the United Nations Office at Geneva to it. In accordance with the Commission's accounting policy, as explained in paragraph 55 under note 3 to the financial statements, the expenses are recognized on an accrual basis. However, the Commission has been recognizing the expenses towards reimbursement of the cost of services from the United Nations Office at Geneva on a cash basis.

Completion of the Commission's mandate

In its decisions 272 (2014) and 273 (2015), the Governing Council of the Compensation Commission decided to postpone Iraq's deposit obligations under Security Council resolution 1956 (2010) in 2015 and 2016, respectively, with quarterly payments of compensation awards to resume in 2017 in accordance with decision 267 (2009). Consequently, there were no compensation payments made towards the outstanding compensation award during 2015 and 2016. As at 31 December 2016, the outstanding balance of compensation awards was \$4.6 billion. In its decision 274 (2016), the Governing Council granted a further one-year postponement, until 1 January 2018. The Board notes the Governing Council's decision and that this most recent postponement will lead to the continuation of the Commission for an unknown period to service the remaining payments to Kuwait. The Board continues to regard as reasonable management's judgment that the accounts are prepared on a going-concern basis.

Follow-up of previous recommendations

The Board followed up on the implementation of previous recommendations and verified the status of outstanding recommendations. Of four outstanding recommendations up to the year ended 31 December 2015, the Commission has fully implemented two (50 per cent), whereas two have been considered as overtaken by events (50 per cent).

Recommendations

In the light of its findings, the Board recommends that the Commission:

- (a) **Take advantage of the introduction of the Umoja system and ensure that the costs of support services provided by the United Nations Office at Geneva are recognized on an accrual basis;**
- (b) **Establish a formal agreement with the Government of Iraq regarding the mechanism for the recommencement of deposits once there is further clarity regarding Iraq's ability to recommence deposits.**

Key facts

\$27.25 million	Total assets in 2016, down from \$31.04 million in 2015
\$19.47 million	Total liabilities in 2016, down from \$24.18 million in 2015
\$7.79 million	Net assets in 2016, up from \$6.86 million in 2015
\$1.33 million	Total expenses in 2016, down from \$1.83 million in 2015

A. Mandate, scope and methodology

1. The Board of Auditors has audited the financial statements of the United Nations Compensation Commission and has reviewed its operations for the financial period ended 31 December 2016 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations as well as the International Standards on Auditing.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of the Commission as at 31 December 2016 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the Governing Council. The Board's report was discussed with the management of the Commission, whose views have been appropriately reflected.

B. Findings and recommendations**1. Follow-up of previous recommendations**

4. The Board followed up on the implementation of previous recommendations and verified the status of outstanding recommendations. Of four outstanding recommendations up to the year ended 31 December 2015, the Commission has fully implemented two (50 per cent), whereas two have been considered as overtaken by events (50 per cent). The annex to the present report contains details on the status of implementation of previous recommendations.

2. Financial overview

5. The Board notes that the financial matters of the Commission are driven by Iraq's deposit of 5 per cent of the proceeds from export sales of petroleum, petroleum products and natural gas to the United Nations Compensation Fund and the payments therefrom of the compensation awards. However, in 2016, with the postponement of Iraq's deposit requirements, there were no payments made towards

the outstanding compensation that remains owing to Kuwait. Nevertheless, the Commission's financial position remains sound and the analysis of the main financial ratios confirm that the Commission remains in a sufficiently strong financial position to meet its total liabilities, with total available assets of \$1.40 for every \$1 of liability.

6. In the context of significantly reduced operations over the period of the postponement and retention of a small cadre of staff, the financial position is sustainable for the Commission to continue through to the end of its mandate. All the financial ratios improved year on year from 2015 to 2016. In 2016, the ratios reflect primarily the position of assets and liabilities in respect of the Commission's administrative functions and have not been affected by compensation awards.

Table II.1
Financial ratios

Description of ratio	31 December 2016	31 December 2015
Current ratio^a		
Current assets: current liabilities	1.57	1.17
Total assets: total liabilities^b		
Assets: liabilities	1.40	1.28
Cash ratio^c		
Cash + investments: current liabilities	1.56	1.15
Quick ratio^d		
Cash + investments + accounts receivable: current liabilities	1.57	1.17

Source: United Nations Compensation Commission financial statements.

^a A high ratio indicates an entity's ability to pay off its short-term liabilities.

^b A high ratio is a good indicator of solvency.

^c The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash, cash equivalents or invested funds that is there in current assets to cover current liabilities.

^d The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.

7. The Board notes that the Commission's operating reserve improved from \$6.9 million (2015) to \$7.8 million in 2016, representing a 13 per cent increase. The increase reflects the amount drawn from the Compensation Fund for administrative expenses at year-end. As the Commission progresses towards liquidation, it should retain sufficient funds in the operating reserve for residual expenses associated with archiving, information requests, employee benefits, consultancy fees and wind-down. The Commission's operating expenses of about \$1.3 million relate primarily to staff costs of approximately \$0.87 million and other operating expenses of \$0.41 million.

3. Financial statements

Non-recognition of the cost of services on an accrual basis

8. The Commission reimburses the United Nations Office at Geneva for the costs of various support services provided by the Office. The Commission paid an advance amount of \$16,300 (after an adjustment for actual expenditures for 2015) for the services to be provided in 2016. However, this amount was accounted as an expense in the year of payment in 2015. A letter from the United Nations Office at Geneva dated 31 May 2016 estimated that the cost of services for 2016 would be \$28,800. Subsequently, the balance amount of \$12,500 was paid by the Commission

during the remaining period of 2016. In the opinion of the Board, the entire amount of \$28,800 should have been accounted for as an expense in the year 2016.

9. In accordance with the Commission's accounting policy, as explained in paragraph 55 under note 3 to the financial statements, the expenses are recognized on an accrual basis. However, the Commission has been recognizing the expenses towards reimbursement of the cost of services provided by the United Nations Office at Geneva on a cash basis because the information of actual expenses has been provided by the Office after the preparation of the financial statements. The Commission has followed this treatment over the years.

10. The Commission stated that with the introduction of the Umoja system, expenses related to services provided by the United Nations Office at Geneva would be charged on an actual cost basis every quarter starting from 2017.

11. The Board recommends that the Commission take advantage of the introduction of Umoja and ensure recognition of the cost of services provided by the United Nations Office at Geneva on an accrual basis.

12. The Commission accepted the recommendation.

4. Progress towards the completion of the Commission's mandate

Compensation Fund

13. The Security Council, in its resolution 1956 (2010), reaffirmed its decisions contained in its resolution 1483 (2003) whereby 5 per cent of the proceeds from Iraqi oil exports and 5 per cent of the value of non-monetary payments shall be deposited into the Compensation Fund to discharge outstanding compensation awards arising as a result of Iraq's invasion of Kuwait in 1990. With the adoption of decisions 272 (2014), 273 (2015) and 274 (2016), Iraq's deposit requirements as set out in paragraph 3 of Security Council resolution 1956 (2010) have effectively been postponed from 1 October 2014 to 1 January 2018. Consequently, there were no payments made during 2015 and 2016. As at 31 December 2016, the outstanding balance of compensation awards remained at \$4.6 billion.

Governing Council decision 274 (2016)

14. At its eighty-first session, on 2 November 2016, the Governing Council of the Commission considered a request from the Government of Iraq for an additional one-year postponement of the requirement under Security Council resolution 1956 (2010) to deposit 5 per cent of the proceeds from oil exports and 5 per cent of the value of non-monetary payments into the Compensation Fund.

15. Noting the extraordinarily difficult security circumstances in Iraq and the unusual budgetary challenges associated with the situation had continued, the Governing Council adopted its decision 274 (2016), postponing Iraq's obligations until 1 January 2018. Quarterly payments of compensation awards, in accordance with Governing Council decision 267 (2009), are expected to resume in 2018.

Impacts of decision 274 (2016) on the Commission

16. The Board was informed by the Commission that under decision 274 (2016), the Governing Council requested that the Government of Iraq advise the Council by 31 August 2017 of Iraq's proposed arrangements for the resumption of deposits on 1 January 2018.

17. The Board further reiterates its previous recommendations made in its 2014 and 2015 reports that the Commission establish a formal agreement with the Government of Iraq regarding the mechanism for the recommencement of

deposits once there is further clarity regarding Iraq's ability to recommence deposits.

18. The Commission accepted the recommendation.

C. Disclosures by management

Write-off of losses of cash, receivables and property

19. The Commission informed the Board that there were no write-offs of losses of cash, receivables or property during the year 2016.

Ex gratia payments

20. The Commission reported no ex gratia payments for the year ended 31 December 2016.

Cases of fraud, presumptive fraud and financial mismanagement

21. In accordance with the International Standards on Auditing (ISA 240), the Board plans its audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularities (including those resulting from fraud). The audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

22. During the audit, the Board makes enquiries of management regarding its oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks of fraud that management has identified or that have been brought to its attention. The Board also enquires as to whether management has any knowledge of any actual, suspected or alleged fraud.

23. The Commission reported no cases of confirmed fraud or presumptive fraud for the year ended 31 December 2016.

D. Acknowledgement

24. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Head and other staff at the Commission.

(Signed) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors
(Lead Auditor)

(Signed) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania

(Signed) Kay **Scheller**
President of the German Federal Court of Auditors

Annex

Status of implementation of recommendations up to the year ended 31 December 2015

(Refer to para. 4)

No.	Audit report year	Paragraph reference	Recommendations of the Board	Response of the Compensation Commission	Board's assessment	Status after verification		
						Implemented	Under implementation	Not implemented
1.	S/2015/566	Chap. II, para. 25	Establish an agreement with the Government of Iraq regarding the mechanism for the recommencement of deposits in January 2016.	The Government of Iraq is now required to respond by 31 August 2017, pursuant to decision 274 (2016).	The Board has reported on the implications of decision 274 (2016) and noted the requirement for the Government of Iraq to advise the Governing Council by 31 August 2017. The recommendation has been overtaken by the events.			X
2.	S/2016/814	Chap. II, para. 11	Establish a regular process for monitoring costs charged to the Compensation Fund in Umoja to ensure the accurate recognition of expenditure.	The Commission is regularly reviewing all charges made to the two funds, 64CWA and 64REP.	The Board noted that the 64REP has been returned to the participating Governments with the exception of a residual amount. The administrative cost is being charged to 64CWA. Hence this recommendation is treated as implemented.	X		
3.	S/2016/814	Chap. II, para. 15	Obtain confirmation from the Office of Programme Planning, Budget and Accounts regarding the level of service provided and the cost charged to the Commission and that it continues to monitor and minimize the administrative costs throughout the postponement and completion of its mandate. The Commission should seek to establish a memorandum of understanding.	As agreed with Headquarters at a meeting in December 2016, the United Nations Office at Geneva will handle all administrative matters of the Commission pursuant to a memorandum of understanding and the preparation of the financial statements. The Commission signed an updated memorandum of understanding with the United Nations Office at	The Board noted that the memorandum of understanding has been entered into between the United Nations Office at Geneva and the Compensation Commission in February 2017. Pursuant to the memorandum of understanding, the United Nations Office at Geneva will handle all administrative matters of the Commission, with	X		

No.	Audit report year	Paragraph reference	Recommendations of the Board	Response of the Compensation Commission	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
4.	S/2016/814	Chap. II, para. 22	The Board further reiterates its previous recommendation that the Commission establish a formal agreement with the Government of Iraq regarding the mechanism for the recommencement of deposits once there is further clarity regarding Iraq's ability to recommence deposits.	Geneva in February 2017. The Office of Programme Planning, Budget and Accounts indicated that it would not require any payment for the remaining services that it renders to Commission. The Government of Iraq is now required to respond by 31 August 2017, pursuant to decision 274 (2016). The Board has reported on the implications of decision 274 (2016) and noted the requirement for the Government of Iraq to advise the Governing Council by 31 August 2017. The recommendation has been overtaken by the events.	effect from 1 January 2017. Hence, this recommendation is treated as implemented.				X
Total						2	2	2	
Percentage						50	50	50	

III. Certification of the financial statements

Letter dated 31 March 2017 from the Assistant Secretary-General, Controller, addressed to the Chair of the Board of Auditors

The financial statements of the United Nations Compensation Commission established under the provisions of Security Council resolution 692 (1991) for the year ended 31 December 2016 have been prepared in accordance with financial rule 106.1.

The summary of significant accounting policies applied in the preparation of these financial statements is included as notes to the financial statements. The notes provide additional information and clarifications of the financial activities undertaken by the United Nations Compensation Commission during the period covered by these statements, for which the Secretary-General has administrative responsibility.

I certify that the appended financial statements of the United Nations Compensation Commission, numbered I to IV, are correct in all material respects.

(Signed) Bettina Tucci **Bartsiotas**
Assistant Secretary-General
Controller

IV. Financial report for the year ended 31 December 2016

A. Introduction

1. The Secretary-General has the honour to submit herewith the financial report on the accounts of the United Nations Compensation Commission for the year ended 31 December 2016.

2. The present report is designed to be read in conjunction with the financial statements. Attached hereto is an annex that includes supplementary information that is required to be reported to the Board of Auditors under the Financial Regulations and Rules of the United Nations.

3. The Compensation Commission is a subsidiary organ of the Security Council. It was established in accordance with Security Council resolutions 687 (1991) and 692 (1991) to process claims and pay compensation for direct losses and damage suffered by individuals, corporations, Governments and international organizations as a direct result of the invasion and occupation of Kuwait by Iraq (2 August 1990-2 March 1991). The Commission is currently composed of the Governing Council and the secretariat. The Governing Council is the policymaking organ of the Commission. Its composition is the same as that of the 15-member Security Council at any given time. The secretariat, headed by the Executive Head, services and provides assistance to the Governing Council.

4. Approximately 2.7 million claims, with an asserted value of \$352.5 billion, were filed with the Commission. The Commission concluded claims processing in 2005, and the total compensation awarded was \$52.4 billion, to more than 1.5 million successful claimants. Funds to pay compensation are drawn from the United Nations Compensation Fund, which receives a percentage of the proceeds generated by the export sales of Iraqi petroleum and petroleum products. By Security Council resolution 1483 (2003), this percentage was reduced from 25 per cent to 5 per cent. In its resolution 1956 (2010), the Council reaffirmed the 5 per cent level and further decided that 5 per cent of the value of any non-monetary payments of petroleum, petroleum products and natural gas made to service providers shall also be deposited into the Compensation Fund.

5. In 2015, the Governing Council adopted its decision 273 (2015), postponing Iraq's obligation to deposit oil proceeds into the Compensation Fund until 1 January 2017. Accordingly, the Commission made no payments towards the remaining claim during 2016, leaving \$4.6 billion outstanding. As at 31 December 2016, the Commission had paid approximately \$47.8 billion in compensation for distribution to successful claimants in all categories.

6. The residual activities related to the Commission's Follow-up Programme for Environmental Awards continued in 2016, with liquidation of payables and return of the final operating reserve to the participating Governments in March 2016.

7. In response to a third request from the Government of Iraq, the Governing Council adopted its decision 274 (2016) in November 2016, postponing Iraq's obligation to deposit 5 per cent of the proceeds from all export sales of petroleum, petroleum products and natural gas and 5 per cent of the value of any non-monetary payments into the Compensation Fund until 1 January 2018, with quarterly payments to resume in 2018.

B. Overview of the financial statements for the year ended 31 December 2016

8. Financial statements I, II, III and IV show the financial results of the Commission's activities. The notes to the financial statements explain the Commission's accounting and financial reporting policies and provide additional information on the individual amounts contained in the statements.

Revenue

9. Under IPSAS, revenue is recognized when funds are drawn from the Compensation Fund for the administrative costs of the Commission. In 2016, the Commission's budget was funded from the Compensation Fund, in accordance with the directives of the Committee on Administrative Matters of the Governing Council, and, accordingly, the Commission recognized revenue in 2016. As the Follow-up Programme for Environmental Awards only conducted residual activities, such as liquidating liabilities and return of the reserve to the participating Governments, the revenue consisted of interest and investment income on the balance of cash in the Programme Fund.

Expenses

10. Under IPSAS, expenses are now recorded in the financial statements on an accrual basis when goods and/or services have been received. The 2016 expenses totalled \$1.333 million. The main expense category was staff costs of \$0.866 million, which constituted 65.0 per cent of the total expenses. Other expenses included contractual services of \$0.037 million (2.8 per cent), other operating expenses of \$0.414 million (31.0 per cent) and travel costs of \$0.016 million (1.2 per cent). Total expenses incurred in 2015 amounted to \$1.827 million, and the decrease in expenses in 2016 was due mainly to a reduction in staff costs and a reduction in support costs.

Operating result

11. As a result of the Commission's budget being funded from the Compensation Fund with a recognition of the corresponding revenue, the statement of financial performance shows a surplus for the year.

Assets

12. Assets as at 31 December 2016 totalled \$27.251 million, compared with a total of \$31.038 million as at 31 December 2015.

13. The main assets at 31 December 2016 were investments and cash and cash equivalents of \$27.190 million, representing 99.8 per cent of the total assets, all of which were held in the main cash pool. This relates to the oil revenue received but not paid towards the outstanding compensation awards and funds to cover liabilities associated with employee benefits.

Liabilities

14. Liabilities as at 31 December 2016 totalled \$19.465 million, compared with the balance at 31 December 2015 of \$24.180 million, which largely reflects the settlement of accounts payable under the Follow-up Programme for Environmental Awards to the participating Governments and the drawdown of the Compensation Fund for the Commission's budget for 2016.

15. The largest liability (\$13.138 million) relates to the accounts payable: compensation awards which will be applied to the payment of compensation awards once payments resume in 2018.

16. The other significant liability is the non-current liability for employee benefits earned by staff members and retirees, which relates primarily to after-service health insurance, amounting to \$6.153 million, representing 31.6 per cent of total liabilities.

Net assets

17. The increase of \$0.928 million in net assets during the year reflects a surplus for the year of \$0.589 million and the actuarial gains on employee benefits liabilities of \$0.339 million. The net asset position reflects the operating reserve of the Commission.

Liquidity position

18. The financial matters of the Commission are driven primarily by the oil receipts from Iraq and the payments of compensation awards. With the postponement of the deposits into the Compensation Fund, the Commission has at its disposal the amount remaining in the operating reserve of \$7.786 million. In addition, pursuant to Security Council resolution 692 (1991), the administrative expenses of the Commission can be drawn from the Compensation Fund. Accordingly, the Commission also has at its disposal the amount remaining in the accounts payable for compensation awards of \$13.138 million. Therefore, the liquidity of the operations of the Commission is assured.

Annex

Supplementary information

1. The present annex provides supplementary information that the United Nations Compensation Commission is required to report.

Write-off of losses of cash and receivables

2. Pursuant to financial rule 106.7 (a), there were no write-offs of cash and receivables incurred during the year ending 31 December 2016.

Write-off of losses of property

3. Pursuant to financial rule 106.7 (a), there were no write-offs of property, plant and equipment incurred during the year ending 31 December 2016.

Ex gratia payments

4. There were no ex gratia payments made by the Commission during 2016.

V. Financial statements for the year ended 31 December 2016

United Nations Compensation Commission

I. Statement of financial position as at 31 December 2016

(Thousands of United States dollars)

	Note	31 December 2016	31 December 2015
Assets — funds held in trust			
Current assets			
Cash and cash equivalents	5, 6	7 505	4 988
Investments	5, 6	13 287	15 383
Receivables from other United Nations entities	5	60	301
Deferred expenditure	5	1	45
Total current assets		20 853	20 717
Investments	5, 6	6 398	10 321
Total non-current assets		6 398	10 321
Total assets		27 251	31 038
Liabilities and funds held in trust			
Current liabilities			
Accounts payable: compensation awards	5, 7	13 138	14 834
Accounts payable: environmental awards	5	—	2 298
Other accounts payable and accrued liabilities	5	22	414
Employee benefits liabilities	8	152	122
Total current liabilities		13 312	17 668
Non-current liabilities			
Employee benefits liabilities	8	6 153	6 512
Total non-current liabilities		6 153	6 512
Total liabilities		19 465	24 180
Net of total assets and total liabilities		7 786	6 858
Net assets			
Operating reserve	9	7 786	6 858
Net assets		7 786	6 858

The notes to the financial statements are an integral part of these financial statements.

United Nations Compensation Commission

II. Statement of financial performance for the year ended 31 December 2016

(Thousands of United States dollars)

	Note	31 December 2016	31 December 2015 (restated)
Revenue			
Revenue	10	1 914	–
Investment revenue	10	8	12
Total revenue		1 922	12
Expenses			
Employee salaries, allowances and benefits	11	866	1 226
Contractual services	4, 11	37	56
Travel	11	16	29
Other operating expenses	4, 11	414	516
Total expenses		1 333	1 827
Surplus/(deficit) for the year		589	(1 815)

The notes to the financial statements are an integral part of these financial statements.

United Nations Compensation Commission

III. Statement of changes in net assets for the year ended 31 December 2016

(Thousands of United States dollars)

	Note	Operating reserve
Net assets as at 1 January 2015		8 997
Changes in net assets during 2015		
Actuarial gains/(losses) on employee benefits liabilities	8	1 974
Deficit for the year		(1 815)
Operating reserve under the Follow-up Programme for Environmental Awards		(2 298)
Total		(2 139)
Net assets as at 31 December 2015		6 858
Changes in net assets during 2016		
Actuarial gains/(losses) on employee benefits liabilities	8	339
Surplus for the year		589
Total		928
Net assets as at 31 December 2016		7 786

The notes to the financial statements are an integral part of these financial statements.

United Nations Compensation Commission
IV. Statement of cash flows for the year ended 31 December 2016

(Thousands of United States dollars)

<i>Cash flows from operating activities</i>	<i>31 December 2016</i>	<i>31 December 2015</i>
Surplus/(deficit) for the period	589	(1 815)
Actuarial gains/(losses) on employee benefits liabilities	339	1 974
<i>Changes in assets</i>		
(Increase)/decrease in accounts receivable	—	4 770
(Increase)/decrease in receivables from other United Nations entities	241	4 795
(Increase)/decrease in deferred expenditure	44	(25)
<i>Changes in liabilities</i>		
Increase/(decrease) in accounts payable: compensation awards	(1 696)	(959 103)
Increase/(decrease) in accounts payable: funds withheld under the Follow-up Programme for Environmental Awards	(2 298)	2 298
Increase/(decrease) in other accounts payable and accrued liabilities	(392)	79
Increase/(decrease) in employee benefits liabilities	(329)	(1 860)
Net cash flows from/(used in) operating activities	(3 502)	(948 887)
Cash flows from investing activities		
Net change in the main cash pool investments	6 019	739 257
Net cash flows from/(used in) investing activities	6 019	739 257
Cash flows from financing activities	—	—
Net cash flows from/(used in) financing activities	—	—
Operating reserve under the Follow-up Programme for Environmental Awards	—	(2 298)
Net increase/(decrease) in cash and cash equivalents	2 517	(211 928)
Cash and cash equivalents — beginning of year	4 988	216 916
Cash and cash equivalents — end of year	7 505	4 988

The notes to the financial statements are an integral part of these financial statements.

United Nations Compensation Commission Notes to the 2016 financial statements

Note 1

Reporting entity

The United Nations and its activities

1. The United Nations is an international organization founded in 1945 after the Second World War. The Charter of the United Nations was signed on 26 June 1945 and became effective on 24 October 1945. The primary objectives of the United Nations are as follows:

- The maintenance of international peace and security
- The promotion of international economic and social progress and development programmes
- The universal observance of human rights
- The administration of international justice and law.

2. These objectives are implemented through the Organization's major organs, as follows:

- The General Assembly focuses on a wide range of political, economic and social issues, as well as financial and administrative aspects of the United Nations
- The Security Council is responsible for various aspects of peacekeeping and peacemaking, including efforts to resolve conflicts, restore democracy, promote disarmament, provide electoral assistance, facilitate post-conflict peacebuilding, engage in humanitarian activities to ensure the survival of groups deprived of basic needs and oversee the prosecution of persons responsible for serious violations of international humanitarian law
- The Economic and Social Council plays a particular role in economic and social development, including a major oversight role in the efforts of other organizations of the United Nations system to address international economic, social and health problems
- The International Court of Justice has jurisdiction over disputes between Member States brought before it for advisory opinions or binding resolutions.

3. The United Nations has its headquarters in New York and has major offices in Geneva, Vienna and Nairobi. It has peacekeeping and political missions, economic commissions, tribunals, training institutes and information and other centres around the world.

Reporting entity

4. The present financial statements relate to the United Nations Compensation Commission, which was established in 1991 in accordance with Security Council resolutions 687 (1991) and 692 (1991) to process and pay claims for direct loss, damage, or injury arising from the invasion and occupation of Kuwait by Iraq (2 August 1990-2 March 1991) and to administer a compensation fund from which to pay successful claims.

5. The Governing Council of the Commission established the Follow-up Programme for Environmental Awards in 2005, in consultation with the Government of Iraq and the participating Governments of the Islamic Republic of Iran, Jordan,

Kuwait and Saudi Arabia, to monitor the financial and technical aspects of 26 environmental remediation and restoration projects being undertaken by the participating Governments with funds awarded by the Commission. While the mandate under the Programme was considered fulfilled in late 2013, there were some residual activities that carried over into 2016.

6. The Commission is regarded as an autonomous financial reporting entity that neither controls nor is controlled by any other United Nations reporting entity. Owing to the uniqueness of the governance and mandate of the Commission, it is not deemed to be subject to common control for the purposes of financial reporting under the International Public Sector Accounting Standards (IPSAS). The Commission has no interests in associates or joint ventures. Therefore, the present statements relate only to the operations of the United Nations Compensation Commission.

7. The Commission's headquarters is located at the United Nations Office at Geneva.

Note 2

Basis of preparation and authorization for issue]

Basis of preparation

8. Pursuant to the Financial Regulations and Rules of the United Nations, the financial statements are prepared on an accrual basis in accordance with IPSAS. In accordance with the requirements of IPSAS, the financial statements, which present fairly the assets, liabilities, revenue and expenses of the Commission and the cash flows over the financial year, consist of the following:

- Statement I: statement of financial position
- Statement II: statement of financial performance
- Statement III: statement of changes in net assets
- Statement IV: statement of cash flows using the indirect method
- A summary of significant accounting policies and other explanatory notes.

Going concern and winding-up of the Commission

9. The financial statements have been prepared on a going-concern basis, and the accounting policies, as summarized in note 3, have been applied consistently in the preparation and presentation of the financial statements. The going-concern assertion is based on the continued application of Security Council resolutions 1483 (2003) and 1956 (2010) and the fact that compensation amounting to \$4.6 billion remains to be paid. With the adoption of its decisions 272 (2014) and 273 (2015), the Governing Council postponed Iraq's obligation to deposit 5 per cent of oil proceeds into the Compensation Fund until 1 January 2017. On 2 November 2016, the Governing Council adopted its decision 274 (2016), in which it further postponed Iraq's obligation to deposit 5 per cent of oil proceeds into the Compensation Fund until 1 January 2018, with quarterly payments of compensation awards under Governing Council decision 267 (2009) to resume in 2018. In this regard, the mandate of the Commission is ongoing.

Measurement basis

10. The financial statements are prepared using the historical cost convention, except for certain investments and assets recorded at fair value through surplus or

deficit, as stated in the notes to the financial statements. The financial statements are prepared for the year from 1 January to 31 December.

Fund accounting

11. Financial information is maintained on a fund-accounting basis in the Commission. A fund is a self-balancing accounting entity established to account for the transactions of a specified purpose or objective.

Functional and presentation currency

12. The functional currency and the presentation currency of the Commission is the United States dollar. The financial statements are expressed in thousands of United States dollars unless otherwise stated.

13. Foreign currency transactions are translated into United States dollars at the United Nations operational rate of exchange at the date of the transaction. The rate approximates the spot rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies — those other than the functional currency — are translated at the United Nations operational rate of exchange year-end rate. Non-monetary foreign currency items measured at historical cost or fair value are translated at the United Nations operational rate of exchange prevailing at the date of the transaction or when the fair value was determined.

14. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized as a change in the statement of financial performance on a net basis.

Materiality and use of judgment and estimation

15. Materiality is central to the preparation and presentation of the financial statements, and its materiality framework provides a systematic method in guiding accounting decisions relating to presentation, disclosure, aggregation, offsetting and retrospective versus prospective application of changes in accounting policies. In general, an item is considered material if its omission or its aggregation would have an impact on the conclusions or decisions of the users of the financial statements.

16. Preparing financial statements in accordance with IPSAS requires the use of estimates, judgments and assumptions in the selection and application of accounting policies, and in the reported amounts of certain assets, liabilities, revenues and expenses.

17. Accounting estimates and underlying assumptions are reviewed on an ongoing basis, and revisions to estimates are recognized in the year in which the estimates are revised and in any future year affected. Significant estimates and assumptions that may result in material adjustments in future years include actuarial measurement of employee benefits, impairment of assets, classification of financial instruments, inflation and discount rates used in the calculation of the present value of provisions and classification of contingent assets and liabilities.

Future accounting pronouncements

18. The progress and impact of the following significant future International Public Sector Accounting Standards Board accounting pronouncements on the Commission's financial statements continue to be monitored:

- Public sector-specific financial instruments: to develop this accounting guidance, the project will focus on issues related to public sector-specific financial instruments which are outside the scope of IPSAS 28: Financial instruments: presentation; IPSAS 29: Financial instruments: recognition and measurement; and IPSAS 30: Financial instruments: disclosures
- Heritage assets: the project objective is to develop accounting requirements for heritage assets
- Non-exchange expenses: the aim of the project is to develop a standard or standards that provide recognition and measurement requirements applicable to providers of non-exchange transactions, except for social benefits
- Revenue: the scope of the project is to develop new standards-level requirements and guidance on revenue to amend or supersede that currently located in IPSAS 9: Revenue from exchange transactions; IPSAS 11: Construction contracts; and IPSAS 23: Revenue from non-exchange transactions (taxes and transfers)
- Consequential amendments arising from chapters 1 to 4 of the conceptual framework for General Purpose Financial Reporting by Public Sector Entities: the project objective is to make revisions to IPSAS that reflect concepts from these chapters, in particular the objectives of financial reporting and the qualitative characteristics and constraints of information
- Leases: the objective of the project is to develop revised requirements for lease accounting covering both lessees and lessors in order to maintain alignment with the underlying International Financial Reporting Standards. The project will result in a new IPSAS that will replace IPSAS 13. The approval of a new IPSAS on leases is projected for June 2018, with publication in July 2018.

Future requirements of IPSAS

19. On 30 January 2015, the IPSAS Board published new standards: IPSAS 34: Separate financial statements; IPSAS 35: Consolidated financial statements; IPSAS 36: Investments in associates and joint ventures; IPSAS 37: Joint arrangements; and IPSAS 38: Disclosure of interests in other entities. These standards will come into effect for periods commencing on 1 January 2017. As the Commission has no activities that come under the scope of these standards, the effect of the standards is not material.

20. In July 2016, the IPSAS Board issued IPSAS 39, repealing IPSAS 25: Employee benefits, to align it with the underlying International Accounting Standard, IAS 19: Employee benefits, and on 31 January 2017 the IPSAS Board published IPSAS 40: Public sector combinations, which prescribes the accounting treatment for public sector combinations and sets out the classification and measurement of public sector combinations, namely, transactions or other events that bring two or more separate operations into a single public sector entity. At the moment, IPSAS 39 will not have any impact on the Commission, since the "corridor method" on actuarial gains or losses, which is being eliminated, was never applied from the inception of IPSAS adoption in 2014. The Commission does not have any plan assets; therefore, there is no impact from application of the net interest approach prescribed by the standard. Further analysis will be carried out in the future should the Commission procure plan assets. The Commission has no activities that come under the scope of IPSAS 40.

Authorization for issue

21. The present financial statements are certified by the Assistant Secretary-General, Controller, and approved by the Secretary-General. In accordance with financial regulation 6.2, the Secretary-General transmits these financial statements as at 31 December 2016 to the Board of Auditors by 31 March 2017. The report of the Board, together with the audited financial statements, is transmitted through the secretariat of the Commission to the Governing Council, whose Committee on Administrative Matters approves the budget and oversees the financial activities of the Commission.

Note 3

Significant accounting policies

Financial instruments: financial assets

22. The Commission classifies its financial assets in one of the categories shown below at initial recognition and re-evaluates the classification at each reporting date. Classification of financial assets depends primarily on the purpose for which the financial assets are acquired.

<i>Classification</i>	<i>Financial assets</i>
Fair value through surplus or deficit	Investments in cash pools
Loans and receivables	Cash and cash equivalents and receivables

23. All financial assets are initially measured at fair value. The Commission initially recognizes financial assets classified as loans and receivables on the date on which they originated. All other financial assets are recognized initially on the trade date, which is the date the Commission becomes party to the contractual provisions of the instrument.

24. Financial assets with maturities in excess of 12 months at the reporting date are categorized as non-current assets in the financial statements. Assets denominated in foreign currencies are translated into United States dollars at the United Nations operational rates of exchange prevailing at the reporting date, with net gains or losses recognized in surplus or deficit in the statement of financial performance.

25. Financial assets at fair value through surplus or deficit are those that either have been designated in this category at initial recognition, or are held for trading, or are acquired principally for the purpose of selling in the short term. These assets are measured at fair value at each reporting date, and any gains or losses arising from changes in the fair value are recorded as a variation to the investment proceeds, since any gains are neither available nor utilizable by the Commission other than for the purposes of payment of compensation awards (see note 7).

26. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recorded at fair value plus transaction costs and subsequently reported at amortized cost calculated using the effective interest rate method. Interest revenue is recognized on a time-proportion basis using the effective interest rate method on the respective financial asset.

27. Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. Evidence of impairment includes default or delinquency of the counterparty or permanent reduction in value of the asset.

Impairment losses are recognized against the statement of financial performance in the year in which they arise. Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred and the Commission has transferred substantially all risks and rewards of the financial asset.

28. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Financial assets: investment in main cash pool

29. The United Nations Treasury invests funds pooled from the Secretariat and other participating entities. These pooled funds are combined in two internally managed cash pools. Participation in the cash pools implies sharing the risk and returns on investments with the other participants. Since the funds are commingled and invested on a pool basis, each participant is exposed to the overall risk of the investments portfolio to the extent of the amount of cash invested.

30. The Commission's investment in the main cash pool is included as part of cash and cash equivalents, short-term investments and long-term investments in the statement of financial position, depending on the maturity period of the investments.

Financial assets: cash and cash equivalents

31. Cash and cash equivalents comprise cash at bank and on hand and short-term, highly liquid investments with a maturity of three months or less from the date of acquisition.

Financial assets: receivables

32. Receivables comprise amounts receivable for goods or services provided to other entities, receivables from other United Nations reporting entities and receivables from staff. Other receivables that are considered material are subject to specific review and an allowance for doubtful receivables assessed on the basis of recoverability and ageing accordingly.

Other assets

33. Other assets include education grant advances and prepayments that are recorded as an asset until goods are delivered or services are rendered by the other party, at which point the expense is recognized.

Financial liabilities: classification

34. Financial liabilities classified as "other financial liabilities" are initially recognized at fair value and subsequently measured at amortized cost. They include accounts payable, transfer payables, unspent funds held for future refunds and other liabilities such as balances payable to other United Nations reporting entities that reflect transactions between funds, and include the amounts due to the United Nations General Fund. Financial liabilities with a duration of less than 12 months are recognized at their nominal value. The Commission re-evaluates classification of financial liabilities at each reporting date and derecognizes financial liabilities when its contractual obligations are discharged, waived, cancelled or expired.

Financial liabilities: accounts payable and accrued liabilities

35. Accounts payable and accrued liabilities arise from the purchase of goods and services that have been received but not paid for as at the reporting date. They are

stated at invoiced amounts, less payment discounts at the reporting date. Payables are recognized and subsequently measured at their nominal value, as they are generally due within 12 months.

Financial liabilities: compensation awards

36. Five per cent of the proceeds from Iraqi oil sales are deposited into the Compensation Fund pursuant to Security Council resolutions 1483 (2003) and 1956 (2010) and are used to pay compensation to successful claimants. The United Nations, through the Compensation Commission, is considered to be an agent responsible solely for the administration of the Fund (see para. 81 below). As such, oil proceeds received are used solely for the purpose of payment of compensation awards and therefore do not meet revenue recognition criteria. Similarly, main pool investment proceeds are applied solely towards successful claims and do not meet revenue recognition criteria. Accordingly, the Commission recognizes an accounts payable balance for the total amount of oil proceeds deposited and investment proceeds less any revenue drawn from the Compensation Fund for the administrative cost of the Commission.

Operating leases: the Commission as "lessee"

37. The Commission occupies premises and uses equipment through lease agreements. Leases where all of the risks and rewards of ownership are not substantially transferred to the Commission are classified as operating leases. Payments made under operating leases are charged to the statement of financial performance as an expense on a straight-line basis over the period of the lease.

Employee benefits

38. Employees comprise staff members, as described under Article 97 of the Charter of the United Nations, whose employment and contractual relationship is defined by a letter of appointment subject to regulations promulgated by the General Assembly pursuant to Article 101, paragraph 1, of the Charter. Employee benefits are classified as short-term benefits, long-term benefits, post-employment benefits and termination benefits.

Short-term employee benefits

39. Short-term employee benefits are employee benefits (other than termination benefits) that are payable within 12 months after the end of the year in which the employee renders the related services. Short-term employee benefits comprise first-time employee benefits (assignment grants), regular daily/weekly/monthly benefits (wages, salaries and allowances), compensated absences (paid sick leave and maternity/paternity leave) and other short-term benefits (death grant, education grant, reimbursement of taxes and home leave) provided to current employees on the basis of services rendered. All such benefits that are accrued but not paid are recognized as current liabilities within the statement of financial position.

Post-employment benefits

40. Post-employment benefits comprise after-service health insurance, end of service repatriation benefits and annual leave, which are accounted for as defined benefit plans in addition to the United Nations Joint Staff Pension Fund.

Defined benefit plans

41. The following benefits are accounted for as defined benefit plans: after-service health insurance, repatriation benefits (post-employment benefits) and accumulated

annual leave that is commuted to cash upon separation from the Organization (other long-term benefits). Defined benefit plans are those for which the Commission's obligation is to provide agreed benefits, and therefore the Commission bears the actuarial risks. The liability for defined benefit plans is measured at the present value of the defined benefit obligation. Changes in the liability for defined benefit plans, excluding actuarial gains and losses, are recognized in the statement of financial performance in the year in which they occur. The defined benefit liabilities are fully funded as defined by IPSAS 25: Employee benefits.

42. The defined benefit obligations are calculated by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds with maturity dates approximating those of the individual plans.

43. *After-service health insurance.* After-service health insurance provides worldwide coverage for necessary medical expenses of eligible former staff members and their dependants. Upon end of service, staff members and their dependants may elect to participate in a defined benefit health insurance plan of the United Nations, provided they have met certain eligibility requirements, including 10 years of participation in a United Nations health plan for those who were recruited after 1 July 2007 and 5 years for those who were recruited prior to that date. The after-service health insurance liability represents the present value of the share of the Commission's medical insurance costs for retirees and the post retirement benefit accrued to date by active staff. A factor in the after-service health insurance valuation is considering contributions by all plan participants in determining the Commission's residual liability. Contributions from retirees are deducted from the gross liability, and a portion of the contributions from active staff is also deducted to arrive at the Commission's residual liability in accordance with cost-sharing ratios authorized by the General Assembly.

44. *Repatriation benefits.* Upon end of service, staff who meet certain eligibility requirements, including residency outside their country of nationality at the time of separation, are entitled to repatriation grant, which is based upon length of service, and travel and removal expenses. A liability is recognized from when the staff member joins the Commission and is measured as the present value of the estimated liability for settling these entitlements.

45. *Annual leave.* The liabilities for annual leave represent unused accumulated leave days that are projected to be settled through a monetary payment to employees upon their separation from the Commission. The Commission recognizes as a liability the actuarial value of the total accumulated unused leave days of all staff members, up to a maximum of 60 days (18 days for temporary staff) as at the date of the statement of financial position. The methodology applies a last-in, first-out assumption in the determination of the annual leave liabilities, whereby staff members access current period leave entitlements before they access accumulated annual leave balances relating to prior periods. Effectively, the accumulated annual leave benefit is accessed more than 12 months after the end of the reporting period in which the benefit arose and, overall, there is an increase in the level of accumulated annual leave days, pointing to the commutation of accumulated annual leave to a cash settlement at end of service as the true liability of the Commission. The accumulated annual leave benefit reflecting the outflow of economic resources from the Commission at end of service is therefore classified under the category of other long-term benefits, it being noted that the portion of the accumulated annual leave benefit that is expected to be settled through monetary payment within 12 months after the reporting date is classified as a current liability. In line with IPSAS 25: Employee benefits, other long-term benefits must be valued similarly to

post-employment benefits; therefore, the Commission values its accumulated annual leave benefit liability as a defined, post-employment benefit that is actuarially valued.

Pension plan: United Nations Joint Staff Pension Fund

46. The Commission is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified by article 3 (b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

47. The Pension Fund exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets, and costs to individual organizations participating in the plan. The Commission and the Fund, in line with the other participating organizations in the Fund, are not in a position to identify the Commission's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, the Commission has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 25. The Commission's contributions to the Fund during the financial period are recognized as expenses in the statement of financial performance.

Termination benefits

48. Termination benefits are recognized as an expense only when the Commission is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate the employment of a staff member before the normal retirement date, or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Termination benefits to be settled within 12 months are reported at the amount expected to be paid. Where termination benefits fall due more than 12 months after the reporting date, they are discounted if the impact of discounting is material.

Other long-term employee benefits

49. Other long-term employee benefits obligations are benefits, or portions of benefits, that are not due to be settled within 12 months after the end of the year in which employees provide the related service.

Provisions

50. Provisions are liabilities recognized for future expenditure of uncertain amount or timing. A provision is recognized if, as a result of a past event, the Commission has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision is measured as the best estimate of the amount required to settle the present obligation at the reporting date. Where the effect of the time value of money is material, the provision is the present value of the amount expected to be required to settle the obligation. Provisions are not recognized for future operating losses.

Contingent liabilities

51. Contingent liabilities represent possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Commission; or present obligations that arise from past events but that are not recognized because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations; or the amount of the obligations cannot be reliably measured.

Contingent assets

52. Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Commission.

Commitments

53. Commitments are future expenses to be incurred by the Commission on contracts entered into by the reporting date and that the Commission has minimal, if any, discretion to avoid in the ordinary course of operations. Commitments include capital commitments (amount of contracts for capital expenses that are not paid or accrued by the reporting date), contracts for the supply of goods and services that will be delivered to the Commission in future years, non-cancellable minimum lease payments and other non-cancellable commitments.

Investment revenue

54. Investment proceeds include the Commission's share of net main cash pool revenue and other interest revenue. The net main cash pool revenue includes any gains and losses on the sale of investments, which are calculated as the difference between the sales proceeds and book value. Transaction costs that are directly attributable to the investment activities are netted against revenue and the net revenue is distributed proportionately to all participants based on their average daily balances. The main cash pool income also includes unrealized market gains and losses on securities, which are distributed proportionately to all participants on the basis of their end-of-year balances. Investment revenue which relate to the Compensation Fund liability are recognized as accounts payable.

Expenses

55. Expenses are decreases in economic benefits or service potential during the reporting year in the form of outflows or consumption of assets or incurrence of liabilities that result in decreases in net assets and are recognized on an accrual basis when goods are delivered and services are rendered regardless of the terms of payment.

56. Employee salaries include international, national and general temporary staff salaries, post adjustments and staff assessments. The allowances and benefits include other staff entitlements, including pension and insurance, assignment, repatriation and other allowances. Operating expenses are office rental costs and other immaterial expenses.

Note 4**Presentation changes of prior period**

57. Several presentation changes have been made in accordance with the United Nations Policy Framework for International Public Sector Accounting Standards to

enhance comparability with other United Nations reporting entities. In 2015, consultant travel expenses of \$0.007 million were reported under other operating expenses and audit service fees of \$0.051 million were reported under contractual services, while in 2016 consultant travel expenses have been reported under contractual services and audit service fees have been reported under other operating expenses. The corresponding changes to the 2015 financial performance are detailed in the table below.

Table 1
Statement of financial performance

(Thousands of United States dollars)

	Note	31 December 2015	Presentation change	31 December 2015 (restated)
Revenue				
Revenue	10	12	(12)	—
Investment revenue	10	—	12	12
Total revenue		12	—	12
Expenses				
Employee salaries, allowances and benefits	11	1 226	—	1 226
Contractual services	11	100	(44)	56
Travel	11	29	—	29
Other operating expenses	11	472	44	516
Total expenses		1 827	—	1 827
Deficit for the year		(1 815)	—	(1 815)

Note 5
Financial instruments

Table 2
Financial instruments

(Thousands of United States dollars)

	31 December 2016	31 December 2015
Financial assets		
Fair value through surplus or deficit		
Short-term investments — main cash pool	13 287	15 383
Total short-term fair value through surplus or deficit	13 287	15 383
Long-term investments — main cash pool	6 398	10 321
Subtotal long-term fair value through surplus or deficit	6 398	10 321
Total fair value through surplus or deficit	19 685	25 704
Loans and receivables		
Cash and cash equivalents — main cash pool	7 505	4 988
Subtotal cash and cash equivalents	7 505	4 988

	31 December 2016	31 December 2015
Receivables from other United Nations entities	60	301
Subtotal accounts receivable	60	301
Total loans and receivables	7 545	5 289
Total carrying amount of financial assets	27 250	30 993
Of which relates to financial assets held in main cash pool	27 190	30 692
Financial liabilities		
Amortized cost		
Accounts payable and accrued liabilities — accounts payable	17	28
Accounts payable and accrued liabilities — accruals	5	386
Subtotal accounts payable and accrued liabilities	22	414
Accounts payable — compensation awards/Government of Iraq (note 7)	13 138	14 834
Accounts payable — environmental awards ^a	—	2 298
Total carrying amount of financial liabilities	13 160	17 546

^a At the seventy-ninth session of the Governing Council, held in June 2015, the Council noted that the operating reserve under the Follow-up Programme for Environmental Awards fund would be transferred to the participating Governments in accordance with decision 269 (2011). The operating reserve of \$2 298 million at that time was converted to accounts payable in 2015 and transferred to the participating Governments in 2016.

Note 6

Financial risk management and the main cash pool

Main cash pool

58. In addition to directly held cash and cash equivalents and investments, the United Nations Compensation Commission participates in the United Nations Treasury main pool. The main pool comprises operational bank account balances in a number of currencies and investments in United States dollars.

59. Pooling the funds has a positive effect on overall investment performance and risk, because of economies of scale and the ability to spread yield curve exposures across a range of maturities. The allocation of cash pool assets (cash and cash equivalents, short-term and long-term investments) and income is based on each participating entity's principal balance.

60. As at 31 December 2016, the Commission participated in the main pool, which held total assets of \$9,033.6 million (2015: 7,783.9 million), of which \$27.2 million was due to the Organization (2015: \$30.7 million), and its share of revenue from the main pool was \$0.2 million (2015: \$1.3 million).

Table 3
Summary of assets and liabilities of the main pool as at 31 December 2016
(Thousands of United States dollars)

	31 December 2016	31 December 2015
Fair value through surplus or deficit		
Short-term investments	4 389 616	3 888 712
Long-term investments	2 125 718	2 617 626
Total fair value through surplus or deficit investments	6 515 334	6 506 338
Loans and receivables		
Cash and cash equivalents	2 493 332	1 265 068
Accrued investment income	24 961	12 462
Total loans and receivables	2 518 293	1 277 530
Total carrying amount of financial assets	9 033 627	7 783 868
Cash pool liabilities		
Payable to the Compensation Commission	27 190	30 592
Payable to other cash pool participants	9 006 437	7 753 176
Total liabilities	9 033 627	7 783 868
Net assets	—	—

Table 4
Summary of net revenue and expenses of the main pool for the year ended
31 December 2016
(Thousands of United States dollars)

	31 December 2016	31 December 2015
Investment revenue	73 903	51 944
Unrealized gains/(losses)	(13 474)	(10 824)
Investment revenue from main pool	60 429	41 120
Foreign exchange gains/(losses)	(5 105)	(11 720)
Bank fees	(646)	(525)
Operating expenses from main pool	(5 751)	(12 245)
Net revenue and expenses from main pool	54 678	28 875

Financial risk management

61. The United Nations Treasury is responsible for investment and risk management for the main pool, including conducting investment activities in accordance with the United Nations Investment Management Guidelines.

62. The objective of investment management is to preserve capital and ensure sufficient liquidity to meet operating cash requirements while attaining a competitive market rate of return on each investment pool. Investment quality, safety and liquidity are emphasized over the market rate of return component of the objectives.

63. An investment committee periodically evaluates investment performance, assesses compliance with the Guidelines and makes recommendations for updates thereto.

Financial risk management: credit risk

64. The Guidelines require ongoing monitoring of issuer and counterparty credit ratings. Permissible main pool investments may include, but are not restricted to, bank deposits, commercial paper, supranational securities, government agency securities and government securities with maturities of five years or less. The main pool does not invest in derivative instruments such as asset-backed and mortgage-backed securities or equity products.

65. The Guidelines require that investments are not be made in issuers whose credit ratings are below specifications, and provide for maximum concentrations with given issuers. These requirements were met at the time the investments were made.

66. The credit ratings used for the main pool are those determined by major credit-rating agencies; Standard & Poor's (S&P), Moody's and Fitch are used to rate bonds and discounted instruments, and the Fitch viability rating is used to rate bank term deposits. The year-end credit ratings are set out in table 5.

Table 5
Investments of the main pool by credit ratings as at 31 December 2016

(Percentage)

Main pool	Ratings as at 31 December 2016				Ratings as at 31 December 2015		
Bonds (long-term ratings)							
	AAA	AA+ / AA / AA-	BBB	NR	AAA	AA+ / AA / AA-	NR
S&P	33.6	55.1	5.6	5.7	37.7	54.2	8.1
Fitch	62.4	28.3		9.3	61.9	26.5	11.6
	Aaa	Aa1 / Aa2 / Aa3			Aaa	Aa1 / Aa2 / Aa3	
Moody's	50.3	49.7			65.8	34.2	
Commercial papers (short-term ratings)							
	A-1				A-1+ / A-1		
S&P	100.0				100.0		
	F1				F1+		
Fitch	100.0				100.0		
	P-1				P-1		
Moody's	100.0				100.0		
Reverse repurchase agreement (short-term ratings)							
	A-1+				A-1+		
S&P	100.0				100.0		
	F1+				F1+		
Fitch	100.0				100.0		
	P-1				P-1		
Moody's	100.0				100.0		

Main pool	Ratings as at 31 December 2016			Ratings as at 31 December 2015		
	aaa	aa/aa-	a+/a	aaa	aa/aa-	a+/a
Term deposits (Fitch viability ratings)						
Fitch	—	48.1	51.9	—	53.6	46.4

Abbreviation: NR, not rated.

67. The United Nations Treasury actively monitors credit ratings, and, because the Organization has invested only in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations, except for any impaired investments.

Financial risk management: liquidity risk

68. The main pool is exposed to liquidity risk associated with requirement of participants to make withdrawals on short notice. It maintains sufficient cash and marketable securities to meet participants' commitments as and when they fall due. The major portion of cash and cash equivalents and investments are available within a day's notice to support operational requirements. The main pool liquidity risk is therefore considered to be low.

Financial risk management: interest rate risk

69. The main pool comprises the Organization's main exposure to interest rate risk, with fixed-rate cash and cash equivalents and investments being interest-bearing financial instruments. As at the reporting date, the main pool had invested primarily in securities with shorter terms to maturity, with the maximum being less than five years (2015: five years). The average duration of the main pool was 0.71 years (2015: 0.86 years), which is considered to be an indicator of low risk.

Main cash pool interest rate risk sensitivity analysis

70. This analysis shows how the fair value of the main pool as at the reporting date would increase or decrease should the overall yield curve shift in response to changes in interest rates. Given that the investments are accounted for at fair value through surplus or deficit, the change in fair value represents the increase or decrease of the surplus or deficit and net assets. The impact of a shift up or down of up to 200 basis points in the yield curve is shown in table 6 (100 basis points equals 1 per cent). The basis point shifts are illustrative.

Table 6
Main pool interest rate risk sensitivity analysis as at 31 December 2016

(Millions of United States dollars)

Shift in yield curve (basis points)	-200	-150	-100	-50	0	50	100	150	200
Increase/(decrease) in fair value									
Main pool total	124.35	93.26	62.17	31.08	—	(31.68)	(62.14)	(93.21)	(124.27)

Main pool interest rate risk sensitivity analysis as at 31 December 2015

(Millions of United States dollars)

Shift in yield curve (basis points)	-200	-150	-100	-50	0	50	100	150	200
Increase/(decrease) in fair value									
Main pool total	128.99	96.74	64.48	32.24	-	(32.23)	(64.46)	(96.69)	(128.91)

Other market price risk

71. The main pool is not exposed to significant other price risks because it does not sell short, borrow securities or purchase securities on margin, which limits the potential loss of capital.

Accounting classifications and fair value: main cash pool

72. All investments are reported at fair value through surplus and deficit. Cash and cash equivalents carried at nominal value are deemed to be an approximation of fair value.

Fair value hierarchy

73. Table 7 presents financial instruments carried at fair value, by fair value hierarchy levels. The levels are defined as:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3: inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs).

74. The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date and is determined by the independent custodian on the basis of valuation of securities sourced from third parties. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The quoted market price used for financial assets held in the main pool is the current bid price.

75. The fair value of financial instruments that are not traded on an active market is determined by using valuation techniques that maximize the use of observable market data. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in level 2.

76. The fair value hierarchy in table 7 presents the main pool assets that are measured at fair value at the reporting date. There were no level 3 financial assets or any liabilities carried at fair value, or any significant transfers of financial assets between fair value hierarchy classifications.

Table 7
Fair value hierarchy for investments as at 31 December: main pool

(Thousands of United States dollars)

	31 December 2016			31 December 2015		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial assets at fair value through surplus or deficit						
Bonds — corporates	697 676	—	697 676	149 682	—	149 682
Bonds — non-United States agencies	1 903 557	—	1 903 557	2 190 965	—	2 190 965
Bonds — non-United States sovereigns	124 854	—	124 854	124 612	—	124 612
Bonds — supranationals	213 224	—	213 224	139 828	—	139 828
Bonds — United States treasuries	586 739	—	586 739	1 092 139	—	1 092 139
Commercial papers	149 284	—	149 284	949 112	—	949 112
Term deposits	—	2 840 000	2 840 000	—	1 860 000	1 860 000
Total main pool	3 675 334	2 840 000	6 515 334	4 646 338	1 860 000	6 506 338

Note 7

Accounts payable: compensation awards

Background

77. Funds to pay successful awards are drawn from the United Nations Compensation Fund, which receives a percentage of the proceeds generated by the export sales of Iraqi petroleum and petroleum products. This percentage has changed over the years and, pursuant to Security Council resolution 1483 (2003), currently stands at 5 per cent. Council resolution 1956 (2010) also provides for 5 per cent of the value of any non-monetary payments of petroleum, petroleum products and natural gas made to service providers to be deposited into the Compensation Fund. These requirements are binding on the Government of Iraq, unless the Government of Iraq and the Governing Council of the Compensation Commission decide otherwise.

78. In exercising its authority over the arrangements for ensuring that payments are made to the Compensation Fund, the Governing Council continues to monitor the deposit of revenues to the Fund.

Decisions 272 (2014), 273 (2015) and 274 (2016)

79. Owing to the extraordinarily difficult security circumstances in Iraq and the unusual budgetary challenges associated with confronting this issue, the Governing Council has adopted three decisions, 272 (2014), 273 (2015) and 274 (2016), in which it effectively postponed, from 2015 through 2017, Iraq's obligation to deposit 5 per cent of oil proceeds and 5 per cent of the value of any non-monetary payments to service providers into the Compensation Fund.

80. Under the latest decision 274 (2016), deposits to the Compensation Fund are to resume on 1 January 2018, with quarterly payments of compensation awards under decision 267 (2009) also to resume in 2018.

Accounting for the 5 per cent of oil proceeds

81. With the transition from the United Nations system accounting standards to IPSAS, other than any agreed proportion retained to fund the administration of the Compensation Commission, oil revenue received is no longer reflected as income

on the Commission's financial statements. Under IPSAS, the obligation to pay the outstanding awards rests with the Government of Iraq, not with the United Nations. The United Nations, through the Commission, is considered to be acting as an "agent", responsible solely for the administration of the Compensation Fund. Oil proceeds received from Iraq and deposited into the Fund are now recorded as cash, that is, an "asset", with a corresponding offset accounts payable, that is, a "liability", in favour of the outstanding claims.

82. Table 8 shows the movements in 2016. Investment proceeds accrued are an increase in the liability but are not available for disbursement until the associated cash is received.

Table 8
Accounts payable: compensation awards

(Thousands of United States dollars)

Movement in the accounts payable: Compensation Fund

Liability at 31 December 2015	14 834
Unrealized loss on investment reversal	51
Subtotal: gross liability as at January 1	14 885
2016 administrative budget	(1 914)
Gross investment proceeds	250
Subtotal: gross liability	13 221
Unrealized loss on investment	(83)
Total liability at 31 December 2016	13 138

83. Pursuant to Governing Council decision 267 (2009), payments would normally be made on a quarterly basis utilizing all available funds in the Compensation Fund, rounding down to the nearest \$10 million. As with the proceeds from oil sales under IPSAS, payments are no longer reflected as an "expenditure" of the Commission and are now reflected as a direct reduction in the liability recorded to offset the cash deposits.

Compensation awards approved but not yet paid as at year-end

84. As at 31 December 2016, compensation awards approved by the Governing Council of the Commission but not yet paid or obligated pending receipt of funds from the sales of oil proceeds further to Security Council resolutions 1483 (2003) and 1956 (2010) stood at approximately \$4,629 million (2015: \$4,629 million).

85. With the adoption of Governing Council decision 273 (2015), there were no payments of compensation awards in 2016, and with the adoption of Council decision 274 (2016), there will be no payments of compensation awards in 2017. The remaining balance in table 8 will be applied to outstanding compensation awards when payments resume in 2018 pursuant to decisions 267 (2009) and 274 (2016).

Note 8
Employee benefits liabilities

Table 9
Employee benefits liabilities
(Thousands of United States dollars)

	<i>Current</i>	<i>Non-current</i>	<i>Total as at 31 December 2016</i>
After-service health insurance	105	5 799	5 904
Annual leave	4	37	41
Repatriation benefits	33	113	146
Subtotal defined benefit liabilities	142	5 949	6 091
Termination benefits	–	204	204
Other employee benefits	10	–	10
Total employee benefits liabilities	152	6 153	6 305

	<i>Current</i>	<i>Non-current</i>	<i>Total as at 31 December 2015</i>
After-service health insurance	96	6 137	6 233
Annual leave	2	38	40
Repatriation benefits	14	135	149
Subtotal defined benefit liabilities	112	6 310	6 422
Termination benefits	–	202	202
Other employee benefits	10	–	10
Total employee benefits liabilities	122	6 512	6 634

86. Other employee benefits consist of home leave allowance accrued benefit as well as accrued settlement of employee taxes.

87. The liabilities arising from post-employment benefits are determined by independent actuaries and are established in accordance with the Staff Regulations of the United Nations and Staff Rules. Actuarial valuation is usually undertaken every two years, with the most recent being on 31 December 2015.

Actuarial valuation: assumptions

88. The Commission reviews and selects assumptions and methods used by the actuaries in the year-end valuation to determine the expense and contribution requirements for the employee benefits. The principal actuarial assumptions used to determine the employee benefit obligations at year-end are set out in table 10.

Table 10
Actuarial assumptions used to determine employee benefits obligations

<i>Actuarial assumptions</i>	<i>After-service health insurance (percentage)</i>	<i>Repatriation benefits (percentage)</i>	<i>Annual leave (percentage)</i>
Discount rates: 31 December 2015 valuation	0.43	2.49	3.82
Discount rates: 31 December 2016 valuation	0.70	2.47	3.63
Inflation: 31 December 2015 valuation	4-6.40	2.25	—
Inflation: 31 December 2016 valuation	4-6.00	2.25	—

89. Discount rates are based on a weighted blend of three discount rate assumptions based on the currency denomination of the different cash flows: United States dollars (Citigroup Pension Discount Curve), euros (EY eurozone corporate yield curve) and Swiss francs (Federation bonds yield curve, plus the spread observed between government rates and high-grade corporate bonds rates)).

90. The per capita claim costs for the after-service health insurance plans are updated to reflect recent claims and enrolment experience. The health-care cost trend rate assumption reflects the current short-term expectations of the after-service health insurance plan cost increases and the economic environment. Medical cost trend rate assumptions that were used for the valuation as at 31 December 2016 reflected the current short-term expectations of the after-service health insurance plan cost increases and the economic environment through a benchmark of market expectations. As at 31 December 2016, these escalation rates were a flat health-care yearly escalation rate of 4.0 per cent (2015: 4.0 per cent) for non-United States medical plans, health-care escalation rates of 6.0 per cent (2015: 6.4 per cent) for all other medical plans, except 5.7 per cent (2015: 5.9 per cent) for the United States Medicare plan and 4.9 per cent (2015: 4.9 per cent) for the United States dental plan), grading down to 4.5 per cent over nine years.

91. With regard to the valuation of repatriation benefits as at 31 December 2016, inflation in travel costs was assumed at 2.22 per cent based on the projected United States inflation rate over the next 10 years. For the roll-forward valuation, the assumption rate used was 2.25 per cent in order to be consistent with the former valuation and to use a long-term projection.

92. Annual leave balances were assumed to increase at the following annual rates during the staff members' projected years of service: 1 to 3 years — 9.1 per cent; 4 to 8 years — 1.0 per cent; 9 years and over — 0.1 per cent. The attribution method continues to be used for annual leave actuarial valuation.

93. Assumptions regarding future mortality are based on published statistics and mortality tables. Salary increases, retirement, withdrawal and mortality assumptions are consistent with those used by the United Nations Joint Staff Pension Fund in making its actuarial valuation.

Movement in employee benefits liabilities accounted for as defined benefit plans

Table 11

Movement in employee benefits liabilities accounted for as defined benefit plans

(Thousands of United States dollars)

	2016	2015
Net defined benefit liability as at 1 January	6 422	8 298
Current service cost	89	141
Interest cost	32	64
Total net costs recognized in the statement of financial performance	121	205
Benefits paid	(113)	(107)
Actuarial (gains)/losses recognized directly in the statement of changes in net assets	(339)	(1 974)
Net defined benefit liability as at 31 December	6 091	6 422

94. The total amount of current service and interest costs recognized in the statement of financial performance was \$0.121 million.

Discount rate sensitivity analysis

95. The changes in discount rates are driven by the discount curve, which is calculated on the basis of corporate bonds. The bonds markets varied over the reporting year, and volatility impacts the discount rate assumption. Should the discount rate assumption vary by 1 per cent, its impact on the obligations would be as shown in table 12.

Table 12

Discount rate sensitivity to end-of-year employee benefits liabilities

(Thousands of United States dollars)

	After-service health insurance	Retirement benefits	Annual leave
For the year ended 31 December 2016			
Increase of discount rate by 1 per cent	(299)	(6)	(4)
As a percentage of end-of-year liability	(5%)	(4%)	(10%)
Decrease of discount rate by 1 per cent	321	6	4
As a percentage of end-of-year liability	5%	4%	10%
For the year ended 31 December 2015			
Increase of discount rate by 1 per cent	(315)	(6)	(4)
As a percentage of end-of-year liability	(5%)	(4%)	(10%)
Decrease of discount rate by 1 per cent	339	6	4
As a percentage of end-of-year liability	5%	4%	10%

Medical costs sensitivity analysis

96. The principal assumption in the valuation of the after-service health insurance is the rate at which medical costs are expected to increase in the future. The sensitivity analysis looks at the change in liability owing to changes in medical cost

rates while holding other assumptions constant; the key assumption held constant is the discount rate. Should the medical cost trend assumption vary by 1 per cent, the impact on the measurement of the defined benefit obligations would be as shown in table 13.

Table 13

Effect of a 1 per cent movement in assumed medical cost trend rates

(Thousands of United States dollars)

	<i>Increase</i>	<i>Decrease</i>
1 per cent movement in the assumed medical costs trend rates:		
31 December 2016		
Effect on the defined benefit obligation	1 409	(1 675)
Effect on the aggregate of the current service cost and interest cost	31	(23)
1 per cent movement in the assumed medical costs trend rates:		
31 December 2015		
Effect on the defined benefit obligation	1 487	(1 135)
Effect on the aggregate of the current service cost and interest cost	32	(24)

Historical information

Table 14

Liabilities for after-service health insurance, repatriation and annual leave, 2011-2016

(Thousands of United States dollars)

	<i>2011</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>
Present value of the defined benefit obligations	5 638	5 875	6 461	8 298	6 422	6 091

Accrued salaries and allowances

97. Accrued salaries and allowances are immaterial.

United Nations Joint Staff Pension Fund

98. The Regulations of the United Nations Joint Staff Pension Fund state that the United Nations Joint Staff Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

99. The Compensation Commission's financial obligation to the Pension Fund consists of its mandated contribution at the rate established by the General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations), together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Fund. Such deficiency payments are payable only if and when the General Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as at the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions that each paid during the three years preceding the valuation date.

100. The actuarial valuation performed as at 31 December 2013 revealed an actuarial deficit of 0.72 per cent (a deficit of 1.87 per cent in the 2011 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as at 31 December 2013 was 24.42 per cent of pensionable remuneration, compared with the actual contribution rate of 23.70 per cent. The next actuarial valuation will be conducted as at 31 December 2017.

101. At 31 December 2013, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 127.5 per cent (130.0 per cent in the 2011 valuation). The funded ratio was 91.2 per cent (86.2 per cent in the 2011 valuation) when the current system of pension adjustments was taken into account.

102. After assessing the actuarial sufficiency of the Pension Fund, the consulting actuary concluded that there was no requirement, as at 31 December 2013, for deficiency payments under article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of reporting, the General Assembly had not invoked the provision of article 26.

103. The Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board on the audit every year. The Fund publishes quarterly reports on its investments, which can be viewed on the Fund's website at www.unjspf.org.

104. In 2016, the Compensation Commission's contributions paid to the Fund amounted to \$0.097 million (2015: \$0.120 million).

Impact of General Assembly resolutions on staff benefits

105. On 23 December 2015, the General Assembly adopted its resolution 70/244, in which it approved certain changes to conditions of service and entitlements for all staff serving in the organizations of the United Nations common system, as recommended by the International Civil Service Commission. The changes that will have the most impact on the calculation of other long-term and end-of-service employee benefits liabilities are as follows:

<i>Change</i>	<i>Details</i>
Increase in mandatory age of separation	The mandatory age of retirement for staff who joined the United Nations on or after 1 January 2014 is 65 and for those who joined before 1 January 2014 is 60 or 62. The General Assembly decided to extend the mandatory age of separation for staff in the United Nations common system to 65 years, at the latest by 1 January 2018, taking into account the acquired rights of staff. Once implemented on 1 January 2018 for the United Nations Secretariat, this change is expected to affect future calculations of employee benefits liabilities.
Unified salary structure	The salary scales for internationally recruited staff (Professional and Field Service) as at 31 December 2016 were based on single or dependency rates. Those rates affect staff assessment and post adjustment amounts. The General Assembly approved a unified salary scale that resulted in the elimination of single and dependency rates as from 1 January 2017. The dependency rate was replaced by allowances for staff members who have recognized dependants in accordance with the Staff Regulations of the United Nations and Staff Rules. A revised staff assessment scale and pensionable remuneration scale was implemented along with the unified salary structure. The implementation of the

<i>Change</i>	<i>Details</i>
	unified salary scale was not designed to result in reduced payments for staff members. However, it is expected that the unified salary scale will affect the calculation and valuation of the repatriation benefit and the commuted annual leave benefit. Currently, the repatriation benefit is calculated on the basis of gross salary and staff assessment at the date of separation, whereas commuted annual leave is calculated on the basis of gross salary, post adjustment and staff assessment at the date of separation.
Repatriation benefit	Staff members are eligible to receive a repatriation grant upon separation provided they have been in service for at least one year in a duty station outside their country of nationality. The General Assembly has since revised eligibility for the repatriation grant from one year to five years for prospective employees, while current employees retain the one-year eligibility. This change is expected to affect future calculations of employee benefits liabilities.

106. The impact of the changes will be fully reflected in the actuarial valuation to be conducted in 2017.

Termination benefits

107. Some staff members are entitled to a termination indemnity should the Commission terminate their appointments. The Commission's accrued liability for these costs at year-end was \$0.204 million (2015: \$0.202 million).

Note 9

Net assets

108. Net assets and reserves represent the residual interest in the assets of the Commission after deducting all its liabilities. The financial statements reflect the aggregation of two funds: the Compensation Fund and the Follow-up Programme for Environmental Awards.

Operating reserve

109. An operating reserve was established by the Governing Council to finance the Commission's administrative expenses, and this reserve is set aside within the Compensation Fund.

110. A separate operating reserve exists for the Follow-up Programme for Environmental Awards that represents a small amount of residual interest earned on the funds in the Follow-up Programme. At the seventy-ninth session of the Governing Council, held in June 2015, the Council noted that the final accounting of the Follow-up Programme for Environmental Awards fund had been completed and that the reserve as established at that time would be transferred to the participating Governments in accordance with its decision 269 (2011). As a result, the amount of \$2.3 million was converted from the operating reserve into an account payable during 2015 and returned to the participating Governments in 2016, in accordance with their respective budgetary contributions.

Note 10
Revenue

Amount charged for administration of claims

111. Under IPSAS, revenue is recognized when funds are drawn from the Compensation Fund for the administrative costs of the Commission. At its thirty-fourth meeting, held in October 2015, the Committee on Administrative Matters of the Governing Council directed that the administrative budget for 2016 be drawn from the Compensation Fund rather than from the operating reserve, in order to ensure that the reserve retains a sufficient level for the orderly wind-down of the Commission and to cover any post-closure costs.

112. As the Follow-up Programme for Environmental Awards only conducted residual activities, the revenue consists of interest and investment income on the balance of cash in the Programme fund.

113. As a result of the budget being deducted from the Compensation Fund, statement II, statement of financial performance, shows a surplus for the year, which is incorporated into the operating reserve in statement I, statement of financial position.

Note 11
Expenses

Table 15
Expenses for the year

(Thousands of United States dollars)

	31 December 2016	31 December 2015 <i>(revised)</i>
Salaries and wages	623	898
Pension and insurance benefits	214	309
Other benefits	29	19
Total employee salaries, allowances and benefits	866	1 226
Consultants and contractors	37	56
Total contractual services	37	56
Travel	16	29
Total travel	16	29
Contracted services	303	437
Rent — offices and premises	74	74
Other/miscellaneous operating expenses	37	5
Total other operating expenses	414	516
Total	1 333	1 827

114. Salaries and wages include international, General Service and temporary staff salaries, post adjustments and staff assessments. Other benefits include repatriation grant, leave benefits and termination costs.

115. Contractual services expenses include non-employee compensation, allowances and travel.

116. Travel expenses include all staff and non-staff travel that is not considered to be an employee or contractual allowance or benefit.

117. Other operating expenses comprise primarily conferencing, information technology and administrative services of the United Nations Headquarters and United Nations Office at Geneva, the rental charge for the Commission's office space at the United Nations Office at Geneva, which includes maintenance, utilities and security services costs, as well as the costs associated with the audit by the Board of Auditors.

Note 12

Segment reporting

118. A segment is a distinguishable activity or group of activities for which financial information is reported separately in order to evaluate an entity's past performance in achieving its objectives and for making decisions about the future allocation of resources. Segment reporting information is provided on the basis of two segments.

119. The Compensation Fund segment contains the Compensation Fund and related activities of the Commission's secretariat, which include the payment of compensation awards, addressing issues concerning the level of Iraq's contribution and arrangements for ensuring that payments continue to be deposited into the Compensation Fund, servicing of the Governing Council, financial and general administrative activities of the secretariat and audit matters. In addition, as the Commission is nearing the conclusion of its mandate, the secretariat focused its efforts on liquidation-related activities to ensure the orderly wind-down of the Commission.

120. The Follow-up Programme for Environmental Awards segment contains residual activities in relation to the Programme, as described in paragraph 5 above. With the mandate of the Programme declared fulfilled by the Governing Council in late 2013, activities in 2016 focused on archiving, audit matters as they pertain to the Programme and the transfer of remaining reserve funds to the participating Governments, as referred to in paragraph 110 above.

121. The segment statements of financial position and financial performance are given in tables 16 and 17.

Table 16

Segment statements of financial position as at 31 December 2016

(Thousands of United States dollars)

	Compensation Fund	Follow-up Programme for Environmental Awards	Total
Assets			
Current assets			
Cash and cash equivalents	7 500	5	7 505
Investments	13 279	8	13 287
Receivables from other United Nations entities	60	—	60
Deferred expenditure	1	—	1
Total current assets	20 840	13	20 853

	Compensation Fund	Follow-up Programme for Environmental Awards	Total
Investments	6 394	4	6 398
Total non-current assets	6 394	4	6 398
Total assets	27 234	17	27 251
Liabilities			
Current liabilities			
Accounts payable: compensation awards/ environmental awards	13 138	–	13 138
Accounts payable	22	–	22
Employee benefits	152	–	152
Total current liabilities	13 312	–	13 312
Non-current liabilities			
Employee benefits	6 153	–	6 153
Total non-current liabilities	6 153	–	6 153
Total liabilities	19 465	–	19 465
Net of total assets and total liabilities	7 769	17	7 786
Net assets			
Operating reserve	7 769	17	7 786
Net assets	7 769	17	7 786

Table 17
Segment statements of financial performance for the year ended
31 December 2016

(Thousands of United States dollars)

	Compensation Fund	Follow-up Programme for Environmental Awards	Total
Revenue			
Revenue	1 914	–	1 914
Investment revenue	–	8	8
Total revenue	1 914	8	1 922
Expenses			
Employee salaries, allowances and benefits	866	–	866
Contractual services	37	–	37
Travel	16	–	16
Other operating expenses ^a	415	(1)	414
Total expenses	1 334	(1)	1 333
Surplus for the year	580	9	589

^a Credit balance in the Follow-up Programme for Environmental Awards is attributable to savings from the previous year's accruals.

Note 12**Related parties***Key management personnel*

122. Key management personnel are those with the ability to exercise significant influence over financial and operating decisions. The head of the Commission's secretariat, the Executive Head, serves as the representative of the Secretary-General and has the authority and responsibility for planning, directing and controlling activities.

123. The aggregate remuneration paid to key management personnel includes net salaries, post adjustment, such entitlements as allowances, grants and subsidies, and employer pension and health insurance contributions. Key management personnel are ordinary members of the Pension Fund and qualify for post-employment benefits at the same level as other employees. These benefits, payable on separation, cannot be reliably quantified as they depend on the years of service and actual separation date.

124. The Commission had one staff member in the key management personnel category, with a total remuneration of \$0.30 million over the financial year; such payments are in accordance with the Staff Regulations of the United Nations and Staff Rules, the published salary scales of the United Nations and other publicly available documents. As at the reporting date, there were no advances or loans issued to key management personnel other than those commonly available to all staff members. During the year, the Commission paid no remuneration or other benefits, such as consulting or service fees, to close family members of key management personnel.

Related party disclosures

125. Except where otherwise stated in the present statements, all transactions made with third parties, including United Nations organizations, occur within a normal supplier or client/recipient relationship or at arm's-length terms and conditions. Transactions with the United Nations entities comprise those shown in table 18.

Table 18

Transactions with third parties

(Thousands of United States dollars)

	Note	31 December 2016	31 December 2015
United Nations Office at Geneva			
Information technology and administrative services		119	96
Conference services		65	135
Charges in relation to after-service health insurance		79	83
Rental	14	73	73
Total United Nations Office at Geneva		336	387
United Nations Headquarters services		55	260
Total United Nations Offices at Geneva and Headquarters		391	647

Note 14

Operating leases and commitments

126. The Commission has entered into an operating lease arrangement with the United Nations Office at Geneva for the use of offices in Villa la Pelouse as its premises. The total lease payments recognized in expenditure for the year were \$0.073 million (2015: \$0.073 million). The arrangement has a six-month early termination clause term and the future minimum lease payments for this six-month period are \$0.04 million (2015: \$0.04 million).

127. As at the reporting date, there were no contractual commitments for goods and services contracted but not delivered.

Note 15

Contingent liabilities and contingent assets

128. In the normal course of operations, the Commission may be subject to claims that can be categorized as corporate and commercial; administrative law; and other. As at the reporting date, the Commission had neither contingent liabilities nor assets.

Note 16

Events after the reporting date

129. There have been no material events, favourable or unfavourable, that occurred between the date of the financial statements and the date on which the financial statements were authorized for issue that would have had a material impact on these statements.